Consolidated Financial Statements and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133 and the New York City Administration for Children's Services Contracts

Montefiore Health System, Inc.
Year Ended December 31, 2014
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Montefiore Health System, Inc.

Consolidated Financial Statements and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133 and the New York City Administration for Children's Services Contracts

Year Ended December 31, 2014

Contents

Schedules Related to the New York City Administration for Children's Services
Contract # 20141409778

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Report of Independent Auditors

The Board of Trustees
Montefiore Health System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Montefiore Health System, Inc. and its controlled organizations (the Health System), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Health System, Inc. and its controlled organizations at December 31, 2014 and 2013, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2014 and the accompanying schedules related to the New York City Administration for Children's Services Contracts as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the New York City Administration for Children's Services, respectively, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information, except for that portions marked "unaudited," has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portions marked "unaudited," on which we express no opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated July 31, 2015 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

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July 31, 2015, except for the schedule of expenditures of federal awards and schedules related to the New York City Administration for Children's Services Contracts for which the date is November 17, 2015.

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Montefiore Health System, Inc.

Consolidated Statements of Financial Position

	December 31	
	2014	**2013**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 77,561**	$ 65,262
Marketable and other securities	**821,993**	922,188
Assets limited as to use, current portion	**64,291**	54,072
Receivables for patient care, less allowances for doubtful accounts (2014 – $25,985; 2013 – $16,835)	**240,050**	185,394
Other receivables	**74,848**	70,203
Estimated insurance claims receivable, current portion	**68,235**	70,827
Other current assets	**55,663**	35,335
Total current assets	**1,402,641**	1,403,281
Assets limited as to use:		
Sinking funds	**78,501**	76,070
Employee deferred compensation plan	**27,362**	22,087
Marketable and other securities – designated	**179,256**	176,021
Malpractice insurance programs	**7,068**	—
Total non-current assets limited as to use	**292,187**	274,178
Marketable securities held as collateral	**4,586**	4,500
Property, buildings and equipment, net	**1,230,348**	995,484
Estimated insurance claims receivable, net of current portion	**386,660**	401,354
Deferred financing costs and other non-current assets	**270,218**	180,877
Total assets	**$ 3,586,640**	$ 3,259,674
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 148,578**	$ 98,049
Other payables and accrued expenses	**130,135**	140,689
Accrued salaries, wages and related items	**286,254**	237,097
Malpractice insurance premiums payable, current portion	**75,910**	71,215
Estimated insurance claims liabilities, current portion	**68,235**	70,827
Long-term debt, current portion	**59,994**	45,851
Total current liabilities	**769,106**	663,728
Long-term debt, net of current portion	**750,960**	592,672
Non-current defined benefit and postretirement health plan and insurance liabilities	**325,594**	239,135
Employee deferred compensation	**27,362**	22,087
Estimated insurance claims liabilities, net of current portion	**386,660**	401,354
Other non-current liabilities	**383,129**	435,246
Total liabilities	**2,642,811**	2,354,222
Commitments and contingencies		
Net assets:		
Unrestricted	**823,682**	805,204
Temporarily restricted	**77,283**	74,898
Permanently restricted	**42,864**	25,350
Total net assets	**943,829**	905,452
Total liabilities and net assets	**$ 3,586,640**	$ 3,259,674

See accompanying notes.

Montefiore Health System, Inc.

Consolidated Statements of Operations

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Operating revenue		
Net patient service revenue	**$ 3,573,021**	$ 3,138,705
Grants and contracts	**122,925**	94,978
Contributions	**6,037**	5,361
Other revenue	**135,686**	145,913
Total operating revenue	**3,837,669**	3,384,957
Operating expenses		
Salaries and wages	**1,832,723**	1,530,791
Employee benefits	**546,724**	466,594
Supplies and other expenses	**1,280,183**	1,127,320
Depreciation and amortization	**134,967**	120,514
Interest	**28,472**	27,210
Total operating expenses	**3,823,069**	3,272,429
Income from operations before certain items	**14,600**	112,528
Net realized and changes in unrealized gains on marketable and other securities	**20,869**	76,810
Contribution received in the acquisition of Nyack Hospital and Subsidiaries	**33,035**	–
Malpractice insurance program adjustments associated with investment earnings shortfall	**(9,424)**	–
Income from operations	**59,080**	189,338
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	**(40,760)**	22,540
Net assets released from restrictions used for purchases of property, buildings, and equipment	**158**	798
Increase in unrestricted net assets	**$ 18,478**	$ 212,676

See accompanying notes.

Montefiore Health System, Inc.

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2014 and 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
		(In Thousands)		
Net assets at January 1, 2013	$ 592,528	$ 74,300	$ 25,350	$ 692,178
Increase in unrestricted net assets	212,676	–	–	212,676
Restricted gifts, bequests, and similar items	–	4,036	–	4,036
Investment income	–	934	–	934
Net assets released from restrictions	–	(4,372)	–	(4,372)
Increase in net assets	212,676	598	–	213,274
Net assets at December 31, 2013	805,204	74,898	25,350	905,452
Increase in unrestricted net assets	**18,478**	**–**	**–**	**18,478**
Contribution received in the acquisition of Nyack Hospital and Subsidiaries	–	**4,249**	**419**	**4,668**
Restricted gifts, bequests, and similar items	**–**	**1,992**	**17,095**	**19,087**
Investment income	**–**	**935**	**–**	**935**
Net assets released from restrictions	**–**	**(4,791)**	**–**	**(4,791)**
Increase in net assets	**18,478**	**2,385**	**17,514**	**38,377**
Net assets at December 31, 2014	**$ 823,682**	**$ 77,283**	**$ 42,864**	**$ 943,829**

See accompanying notes.

Montefiore Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 38,377**	$ 213,274
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contribution received in the acquisition of Nyack Hospital and Subsidiaries	**(37,703)**	**–**
Depreciation and amortization	**134,967**	120,514
Change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods	**40,760**	(22,540)
Net realized gains	**(14,381)**	(7,786)
Change in net unrealized gains	**(6,488)**	(69,024)
Equity earnings from investments	**(7,301)**	(10,559)
Amortization of long-term mortgage premium	**(878)**	(931)
Changes in operating assets and liabilities:		
Receivables for patient care	**(30,852)**	(25,563)
Non-current defined benefit and postretirement health plan and insurance liabilities	**27,351**	(18,402)
Other non-current liabilities	**(3,575)**	82,516
Net change in all other operating assets and liabilities	**(28,922)**	10,945
Net cash provided by operating activities	**111,355**	272,444
Investing activities		
Acquisition of property, buildings, and equipment, net	**(302,683)**	(289,681)
Decrease in marketable and other securities, net	**121,064**	73,032
(Increase) decrease in marketable securities held as collateral, net	**(86)**	1,380
Increase in assets limited to use, net	**(26,067)**	(83,528)
Cash received in the acquisition of Nyack Hospital and Subsidiaries	**1,963**	–
Net cash used in investing activities	**(205,809)**	(298,797)
Financing activities		
Payments of long-term debt	**(58,285)**	(40,818)
Proceeds from long-term debt	**165,038**	101,505
Net cash provided by financing activities	**106,753**	60,687
Net increase in cash and cash equivalents	**12,299**	34,334
Cash and cash equivalents at beginning of year	**65,262**	30,928
Cash and cash equivalents at end of year	**$ 77,561**	$ 65,262
Supplemental disclosure of non-cash investing activities		
Assets acquired as lessee involvement in construction	**$ 94**	$ 48,896

See accompanying notes.

Montefiore Health System, Inc.

Notes to Consolidated Financial Statements

December 31, 2014

1. Organization and Summary of Significant Accounting Policies

Montefiore Health System, Inc. and its controlled organizations (collectively, the Health System) comprise an integrated health care delivery system. The facilities are located in the Bronx, Westchester and Rockland Counties in New York. The Health System is incorporated under New York State Not-for-Profit Corporation law and provides health care and related services. Various entities within the Health System are exempt from Federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code (the Code) as organizations described in Section 501(c)(3), while other entities are not exempt from such income taxes. The exempt organizations also are exempt from New York State and local income taxes. During 2014, Montefiore Medicine Academic Health System, Inc. became the sole member of MHS.

The Health System comprises an integrated health care delivery system that provides patient care, teaching, research, community services and care management. The Health System operates many community benefit programs, including wellness programs, community education programs and health screenings, as well as a variety of community support services, health professionals' education, school health programs and subsidized health services.

The accompanying consolidated financial statements include the accounts of the following principal operating organizations (see Note 10). All inter-organization accounts and activities have been eliminated in consolidation.

- Montefiore Health System, Inc.
- Montefiore New Rochelle Hospital (MNR)
- Montefiore Mount Vernon Hospital (MMV)
- Schaffer Extended Care Center (SECC)
- Montefiore SS Holdings, LLC (SS Holdings)
- Montefiore MV Holdings, LLC (MV Holdings)
- Montefiore HA Holdings, LLC (HA Holdings)
- Montefiore North Ambulatory Care Center, Inc. (NAMB)
- Montefiore HMO, LLC (MHMO)
- Montefiore Information Technology, LLC (MIT)
- Nyack Hospital, Inc. (Nyack Hospital)
- Nyack Hospital Foundation, Inc. (Nyack Foundation), a subsidiary of Nyack Hospital
- Highland Medical P.C. (Highland Medical), a subsidiary of Nyack Hospital
- Montefiore Medical Center (the Medical Center) and its controlled organizations:
  - MMC Corporation (MCORP)
  - CMO The Care Management Company, LLC (CMO)
  - The Montefiore IPA, Inc. (MIPA)
  - Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA)
  - University Behavioral Associates, Inc. (UBA)
  - Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA)
  - Gunhill MRI P.C. (Gunhill)
  - Montefiore Consolidated Ventures, Inc. (MCV)
  - MMC Residential Corp. I, Inc. (Housing I)
  - Montefiore Hospital Housing Section II, Inc. (Housing II)
  - Mosholu Preservation Corporation (MPC)
  - MMC GI Holdings East, Inc. (GI East)
  - MMC GI Holdings West, Inc. (GI West)
  - MMC Initiatives, LLC (MINT)
  - Montefiore Proton Acquisition, LLC (MPRO), an organization in the development stage

1. Organization and Summary of Significant Accounting Policies (continued)

The operations of Nyack Hospital, Nyack Foundation and Highland Medical (collectively referred to as Nyack or Nyack Hospital and Subsidiaries) are consolidated as of August 1, 2014, concurrent with the acquisition of those entities (see Note 10). The operations of MNR, MMV, SECC, SS Holdings, MV Holdings and HA Holdings began on November 6, 2013, concurrent with the closing of the purchase of certain assets (see Note 10).

MCV is a taxable corporation that began operations on January 1, 2014, and is the parent of ACO-IPA, MIPA, MBCIPA, GI East, GI West and UBA. Effective January 1, 2014, the net asset deficiency of MIT was transferred to the Health System as a result of a change in membership.

Captive insurance companies in which the Health System has an equity interest of at least 17%, but less than 25%, are accounted for under the equity method of accounting. In addition, investments in limited liability companies not wholly owned are recorded under the equity method.

The Health System's significant accounting policies follow:

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by the donors to be maintained by the Health System in perpetuity. The Health System records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions.

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements. Other revenue for the years ended December 31, 2014 and 2013 includes approximately $4.6 million and $3.6 million, respectively, of net assets released from restrictions used for operations.

Cash and Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Health System maintains cash on deposit with major banks and invests in highly rated commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase.

1. Organization and Summary of Significant Accounting Policies (continued)

The Health System limits the amount of credit exposure to any one financial institution. At December 31, 2014 and 2013, the Health System invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

Revenue and Receivables for Patient Care: Patient accounts receivable for which the Health System receives payment under various formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payers, which is generally less than the established billing rates of the Health System. Fees for patient services not covered by payer reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third-party payers which are directly related to receivables for patient care.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions and other collection indicators.

Inventories: Inventories, included in other current assets, are valued at the lower of cost (first-in, first-out method) or market.

Marketable and Other Securities: All marketable and other securities are classified as trading securities. Marketable securities (excluding alternative investments) are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, collective trust funds and equity securities. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. The carrying amount of alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Health System holds limited partnership interests, are determined by the Health System's management for each investment based upon net asset values derived from the application of the equity method of accounting.

Individual investment holdings within the alternative investments include both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the carrying amount reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Health System to

1. Organization and Summary of Significant Accounting Policies (continued)

securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Health System's risk is limited to its carrying value, in addition to any unfunded commitments. At December 31, 2014, the Health System had approximately $8.7 million of future commitments to invest in alternative investments. Certain investments are subject to notification periods or restrictions in order to divest. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Health System's annual consolidated financial statement reporting.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary or secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Investment Gains, Losses, and Income: Net realized and unrealized gains and losses on marketable and other securities and equity in earnings or losses of alternative investments are recorded in the accompanying consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets.

Realized gains and losses on sales of marketable and other securities are based on the average cost method.

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements, donor restrictions, or external or internal designations.

Property, Buildings and Equipment: Property, buildings and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date received. Property, buildings and equipment of acquired entities are recorded at fair value at the acquisition date based upon an independent valuation. Annual provisions for depreciation are made based upon the straight-line method over the estimated useful lives of the assets. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal.

1. Organization and Summary of Significant Accounting Policies (continued)

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is determined by the effective interest method extending over the terms of the related indebtedness.

Employee Deferred Compensation Plan: Pursuant to various deferred compensation plans in which certain Health System employees or former employees participate, the Health System deposited amounts with trustees on behalf of the participating employees. The Health System is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Health System under certain specified circumstances.

Deferred Revenue: Deferred revenue included with other non-current liabilities represents amounts the Health System has received for which all obligations have not yet been fulfilled. Accordingly, such amounts are included within deferred revenue until earned.

Vacation Benefits: These benefits are accrued as earned, except for individuals employed under certain research grants and contracts.

Premium Revenue and Health Care Service Cost Recognition: Under certain managed care contracts, the Health System receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Health System manages and, directly and through arrangements with other health care providers, delivers health care services to enrollees in accordance with the terms of the subscriber agreements. The Health System reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of health care services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. Health care service costs included in supplies and other expenses were reduced by approximately $1.1 million and $2.6 million for the years ended December 31, 2014 and 2013, respectively, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within the caption net patient service revenue in the accompanying consolidated statements of operations aggregated approximately $591.0 million and $563.9 million for the years ended December 31, 2014 and 2013, respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

Performance Indicator: The consolidated statements of operations include income from operations as the performance indicator. Items excluded from income from operations are change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods and net assets released from restrictions used for purchases of property, buildings and equipment.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses and included in income from operations. Peripheral transactions or transactions of an infrequent nature are excluded from income from operations before certain items.

Research and Contract Revenue Recognition: The Health System is the recipient of various research awards from various governmental and commercial sources and has various contracts with governmental agencies. Revenue is recognized only to the extent of expenditures under the specific contracts or awards. The accompanying consolidated financial statements do not include amounts related to grants (or portions thereof) that have been awarded to the Health System for which expenditures have not been incurred. Such grant awards approximated $35.6 million and $26.2 million at December 31, 2014 and 2013, respectively.

Tax Status: The Health System, a section 501(c)(3) organization, is exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except for MIPA, ACO-IPA, UBA, MBCIPA, MCV, GI East, and GI West which are taxable entities. CMO, MIT, MPRO, MINT, SS Holdings, MV Holdings, HA Holdings and MHMO are considered to be disregarded entities for tax purposes. Disregarded entity status provides that the Health System is subject to unrelated business income taxation on CMO, MIT, MPRO, MINT, SS Holdings, MV Holdings, HA Holdings and MHMO income derived from activities not specific to the Health System.

1. Organization and Summary of Significant Accounting Policies (continued)

Charity Care and Other Community Benefit Programs: The Health System is guided by its mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for services, care provided under means-tested government insurance programs that reimburse the Health System at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

The Health System is committed to serving all patients in need of health care services. Consistent with its mission and values, and taking into account an individual's ability to pay for medically necessary health care services, the Health System provides charity care, including free or discounted care, to all patients not covered by insurance. A key aspect of the policy includes assisting patients in obtaining insurance they are eligible to receive. Care provided under the charity care policy is not reported as revenue in the accompanying consolidated statements of operations. The cost of charity care is estimated based on charges associated with the care provided, applied to the ratio of total patient care expenses to total charges for all services rendered.

Care provided to patients identified as having the means to pay, but for which payment is not received, is classified as bad debt expense. The Health System uses information from patients and other sources who are unable to provide financial information, to determine eligibility for charity care to classify activity between charity care and bad debt expense. Bad debt expense is included as a deduction from patient service revenue in the accompanying consolidated statements of operations. For purposes of the community benefit costs disclosed in the following table, the cost of bad debt expense is estimated based on the charges applied to the ratio of total patient care expenses to total charges for all services rendered.

Medicaid and other means-tested programs comprise approximately one-third of the Health System's patient service revenue. The costs are estimated based on charges for services provided under the means-tested programs, applied to the ratio of total patient care expenses to total charges for all services rendered. The unpaid cost presented in the following table is based on estimated total costs, less reimbursement received for the services provided.

1. Organization and Summary of Significant Accounting Policies (continued)

The Health System operates one of the largest medical residency and health professions training programs in the United States. The costs of the training programs are included in operating expenses in the accompanying consolidated statements of operations. The costs presented below are net of graduate medical education funding from the Medicare and Medicaid programs.

Research and other community benefit program costs include expenses incurred to advance medical care and clinical knowledge. In addition, the Health System fosters community participation through advisory boards and linkages with community-based groups. It responds to identified community health related needs by offering specific services including, among others, wellness programs, community education programs, health screenings, community support services and subsidized health services. The research and other community benefit program costs presented below are included in operating expenses in the accompanying consolidated statements of operations.

A summary of the costs associated with the provision of charity care and other community benefit programs is as follows:

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Charity care, at cost and net of subsidies	**$ 49,257**	$ 56,141
Unpaid cost of means-tested government-sponsored insurance programs	**278,314**	161,485
Health professions training, at cost	**91,175**	86,199
Community benefit programs	**88,260**	90,986
Research	**16,117**	20,217
	$ 523,123	$ 415,028

The NYSDOH Hospital Indigent Care Pool (the Pool) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part by a 1% assessment on hospital net inpatient service revenue. For the years ended December 31, 2014 and 2013, the Health System received $27.4 million and $16.8 million, respectively, in Pool distributions related to charity care. The Health System made payments into the Pool of $19.4 million and $18.8 million for the years ended December 31, 2014 and 2013, respectively, for the 1% assessment.

1. Organization and Summary of Significant Accounting Policies (continued)

Program Services: The Health System provides health care and related services primarily within its geographic location. Expenses related to providing these services for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In Thousands)	
Health care and related services	**$ 3,489,519**	$ 3,013,373
Program support and general services	**333,550**	259,056
	$ 3,823,069	$ 3,272,429

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients and estimated insurance recoveries receivable, and liabilities, such as estimated payables to third-party payers, estimated insurance claims liabilities and the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. The allowance for doubtful accounts and the estimated due to third-party payers, among other accounts, require significant use of estimates. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Health System's consolidated financial position.

Reclassifications: For purposes of comparison, certain reclassifications have been made to the accompanying 2013 consolidated financial statements to conform to the 2014 presentation. These reclassifications have no effect on net assets previously reported.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. On July 9, 2015, the FASB voted and approved to defer the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 will be effective for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year, with early adoption permitted but not prior to the original effective date of annual periods beginning after

1. Organization and Summary of Significant Accounting Policies (continued)

December 15, 2016. The Health System has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and will be applied retrospectively. Early adoption is permitted.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 eliminates the requirement to categorize within the fair value hierarchy investments whose fair value is measured at net asset value (NAV) as a practical expedient. Instead, entities will be required to disclose the fair value of investments measured using NAV so that users can reconcile the amounts within the fair value hierarchy to amounts reported on the balance sheet. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within that fiscal year, and will be applied retrospectively. Early adoption is permitted.

Subsequent Events: Subsequent events have been evaluated through July 31, 2015, which is the date the consolidated financial statements were available to be issued. No additional subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements, except as discussed below.

On January 1, 2015, the Health System became the sole corporate member of a Westchester, New York hospital. During the year ended December 31, 2014, the Medical Center advanced funds to the Health System which the Health System loaned to a Westchester, New York hospital to assist in the development of certain projects, services and infrastructure under the executed loan agreements. As of December 31, 2014, approximately $30.9 million had been advanced to the Health System. On January 1, 2015, under the terms of the loan agreements, these loans were terminated, resulting in a capital contribution between the Health System and a Westchester, New York hospital. Accordingly, on January 1, 2015, amounts advanced to the Health System were forgiven and recorded as an equity transfer.

Additionally, the Health System is in various stages of discussions with other health care organizations related to potential affiliations. Any such discussions are subject to completion of definitive agreements and final terms and conditions including regulatory and board approvals.

2. Net Patient Service Revenue

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from third-party payers, patients, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated, such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula.

Outpatient services also are paid based on a statewide prospective system that became effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Health System is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

Medicare Reimbursement: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Health System. These retroactive settlements are estimated and recorded in the accompanying consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2014 and 2013 could differ from actual settlements based on the results of cost report audits.

2. Net Patient Service Revenue (continued)

Laws and regulations governing health care programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. The Health System is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that have been enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse effect on the Health System.

Bad Debt Expense: The collection of patient service revenue due from patients, including copayments and deductibles, from those who are ineligible for charity care, is subject to uncertainty. The Health System records bad debt expense in the period services are rendered based on past experience, to account for amounts that patients may ultimately be unable or unwilling to pay. For self-pay patients, which includes both patients without insurance and patients with copayments and deductibles after third-party coverage, the Health System records an estimate for bad debt expense in the current period based on past experience. Amounts ultimately written off as uncollectible and recoveries of such amounts are deducted from, or added to the allowance for doubtful accounts.

Net patient service revenue, net of contractual allowances and discounts, for the years ended December 31, 2014 and 2013, by major payer source, is as follows:

	2014	**2013**
	(In Thousands)	
Patient service revenue (net of contractual allowances and discounts):		
Third-party payers	**$ 3,568,880**	$ 3,131,345
Self-pay	**57,862**	29,109
	3,626,742	3,160,454
Bad debt expense	**(53,721)**	(21,749)
Net patient service revenue	**$ 3,573,021**	$ 3,138,705

3. Marketable and Other Securities

The composition of marketable and other securities and assets limited as to use, at fair value, follows:

	December 31	
	2014	**2013**
	(In Thousands)	
Marketable and other securities	**$ 821,993**	$ 922,188
Assets limited as to use	**356,478**	328,250
Marketable securities held as collateral	**4,586**	4,500
	$ 1,183,057	$ 1,254,938
Cash and cash equivalents	**$ –**	$ 9,993
Managed cash and cash equivalents held for investment	**76,943**	60,645
Non-equity mutual funds	**108,477**	138,190
Equity mutual funds	**161,516**	161,286
U.S. Government agency mortgage-backed securities	**35,658**	45,407
U.S. Treasury securities	**92,299**	128,101
U.S. Government agency-backed securities	**57,284**	62,006
Equity securities	**58,348**	51,042
Limited partnerships and other alternative investments	**150,196**	133,817
Collective trust funds	**69,357**	70,039
Corporate debt	**354,913**	390,560
Interest and other receivables	**18,066**	3,852
	$ 1,183,057	$ 1,254,938

Current assets limited as to use – marketable securities include amounts set aside to satisfy MIPA contractual requirements, the current portion of assets designated for employee deferred compensation and the current portion of assets designated for malpractice insurance programs.

3. Marketable and Other Securities (continued)

Investment returns for the years ended December 31, 2014 and 2013 are comprised as follows:

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Interest and dividend income	**$ 13,620**	$ 17,791
Net realized gains	**14,381**	7,786
Change in net unrealized gains	**6,488**	69,024
	$ 34,489	$ 94,601

At December 31, 2014 and 2013, marketable securities aggregating approximately $4.6 million and $14.5 million (at fair value), respectively, were pledged as collateral under various debt and other agreements and included in cash and cash equivalents and marketable securities held as collateral in the accompanying consolidated statements of financial position.

4. Property, Buildings and Equipment

A summary of property, buildings and equipment follows:

	December 31	
	2014	**2013**
	(In Thousands)	
Land and land improvements	**$ 82,550**	$ 68,641
Buildings, fixed equipment and improvements	**1,586,315**	1,318,875
Movable equipment	**1,024,380**	890,788
	2,693,245	2,278,304
Less accumulated depreciation and amortization	**(1,603,881)**	(1,470,531)
	1,089,364	807,773
Construction-in-progress	**140,984**	187,711
	$ 1,230,348	$ 995,484

4. Property, Buildings and Equipment (continued)

At December 31, 2013, construction-in-progress included approximately $57.6 million of construction costs recorded during the years ended December 31, 2013 and 2012 in connection with lessee involvement during asset construction. As of December 31, 2014, construction was substantially complete and the assets were been placed into service. At December 31, 2013, a corresponding construction liability was recorded and included as a component of non-current liabilities in the accompanying consolidated statement of financial position. At December 31, 2014, the construction liability was reclassified from other non-current liabilities to long-term debt upon completion of construction.

Substantially all property, buildings and equipment have been collateralized under various debt agreements.

5. Operating Leases

Total rental expense included in supplies and other expenses aggregated approximately $48.9 million and $42.1 million for the years ended December 31, 2014 and 2013, respectively.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2014 consisted of the following (in thousands):

2015	$ 34,937
2016	31,270
2017	30,771
2018	26,710
2019	19,802
2020 and thereafter	133,531
Total minimum lease payments	$ 277,021

6. Long-Term Debt

A summary of long-term debt follows:

	December 31 2014	2013
	(In Thousands)	
FHA Section 242 insured mortgage loan[a]	**$ 100,412**	$ 106,634
FHA Section 241 insured mortgage loan[b]	**76,861**	84,279
FHA Section 241 insured mortgage loan[c]	**67,756**	71,789
FHA Section 241 insured mortgage loan[d]	**11,118**	11,780
FHA Section 241 insured mortgage loan[e]	**141,185**	145,995
HDC residential revenue bonds payable[f]	**6,400**	6,600
Bank loans payable[g]	**76,195**	56,960
Housing II mortgages payable[h]	**18,729**	18,869
Housing I mortgage payable[i]	**1,313**	1,381
MCORP bonds payable[j]	**19,234**	19,705
NYC IDA bonds payable[j]	**13,436**	13,765
Build NYC bonds payable[k]	**71,112**	29,044
Tax exempt leasing programs[l]	**94,577**	62,678
Taxable leasing programs[m]	**40,076**	–
Ambulatory care center financing[n]	**57,701**	–
Nyack Hospital and Subsidiaries loan programs[o]	**6,744**	–
Other	**1,986**	2,047
	804,835	631,526
Add long-term mortgage premium[b, e, j]	**6,119**	6,997
Less current portion	**(59,994)**	(45,851)
	$ 750,960	$ 592,672

[a] The Medical Center has a mortgage agreement with the Dormitory Authority of the State of New York (the Dormitory Authority) insured under the provisions of the Federal Housing Administration (FHA) 242 Program. This insured mortgage loan is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets. Payments of principal and interest are due monthly through October 1, 2026. Interest is payable at a rate of 4.57%.

With the exception of certain limited circumstances, the mortgage loan can be prepaid after February 1, 2015, without penalty.

6. Long-Term Debt (continued)

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2014, there were no further funding requirements and the balance of approximately $22.1 million of the mortgage reserve fund met the minimum mortgage reserve fund requirement related to the FHA 242 Program insured mortgage loan.

(b) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project. The interest rate on the mortgage is 4.55% per annum and principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to February 1, 2018. Subsequent to February 1, 2018, the loan may be prepaid without penalty.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loan. At December 31, 2014, there were no future funding requirements and the balance of approximately $22.2 million of the mortgage reserve fund met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan.

In connection with this financing, the Medical Center recorded a mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately $1.9 million and $2.3 million at December 31, 2014 and 2013, respectively. The mortgage premium is being amortized over the life of the mortgage using the effective interest method.

(c) The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program to finance a construction and renovation project. The interest rate is 4.22% per annum. Monthly payments of principal and interest will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to April 30, 2021, after which the mortgage may be prepaid without penalty.

6. Long-Term Debt (continued)

The Medical Center is required to maintain a mortgage reserve fund at specified minimum balances for the FHA insured mortgage loan. At December 31, 2014, there were no future funding requirements, and the balance of approximately $14.0 million met the minimum required reserve fund balance.

(d) The Medical Center has a mortgage agreement insured under the provisions of the FHA 241 Program to finance a construction and renovation project. The interest rate is 4.22% per annum. Monthly payments of principal and interest will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to April 30, 2021, after which the mortgage may be prepaid without penalty.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain a mortgage reserve fund at specified minimum balances for the FHA insured mortgage loan. At December 31, 2014, there were no future funding requirements and the balance of approximately $2.3 million met the minimum required reserve fund balance.

(e) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project that was completed in 2007. The interest rate is 5.37% per annum. Principal and interest payments are due monthly through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan can be prepaid without penalty.

In connection with the mortgage agreement, the Medical Center has a bank letter of credit, which expires on December 14, 2016. The approximate $3.2 million letter of credit is secured by approximately $3.5 million of marketable securities included in marketable securities held as collateral in the accompanying consolidated statements of financial position at December 31, 2014 and 2013. There were no drawdowns under the letter of credit during the years ended December 31, 2014 and 2013.

6. Long-Term Debt (continued)

In connection with this financing, the Medical Center recorded approximately $7.6 million of mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately $4.1 million and $4.5 million at December 31, 2014 and 2013, respectively. The mortgage premium is amortized to accrete the amount recorded over the life of the mortgage using the effective interest method.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2014, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

	December 31	
	Funding Requirement	**Minimum Balance**
	(In Thousands)	
2015	$ 2,379	$ 20,320
2016	2,426	22,746
2017	2,320	25,066
2018	–	25,066
2019	–	25,066

(f) The proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (1.41% at December 31, 2014). Principal is payable annually through May 1, 2030, at increasing annual amounts ranging from approximately $200,000 to $600,000. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amount of approximately $6.5 million, which expires in June 2016. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2014 and 2013. The revenue bonds can be prepaid without penalty at the option of the Medical Center.

6. Long-Term Debt (continued)

(g) The Medical Center has a bank loan, of which approximately $4.7 million was outstanding at both December 31, 2014 and 2013. Interest is payable monthly at a variable rate (3.07% at December 31, 2014). Annual principal payments of approximately $155,000 are due through the final maturity date in August 2016, at which time the remaining principal is due.

The Medical Center has a bank loan agreement, of which approximately $2.1 million and $2.4 million was outstanding at December 31, 2014 and 2013, respectively. Interest is payable monthly at a variable rate (2.73% at December 31, 2014). Annual principal payments of approximately $267,000 are due through the final maturity date in August 2016, at which time the remaining principal is due.

During 2012, MCORP entered into a loan agreement with a bank to finance certain leasehold improvements. The balance outstanding at December 31, 2014 and 2013 was approximately $1.6 million and $2.4 million, respectively. Interest is payable monthly at a variable rate (3.13% at December 31, 2014). Annual principal payments of approximately $800,000 are due through the final maturity date in December 2016, at which time the remaining principal is due.

During 2013, MCORP entered into a mortgage loan agreement with a bank for approximately $38.5 million in order to finance the purchase and renovation of real estate. At December 31, 2014 and 2013, approximately $37.8 million and $38.5 million was outstanding, respectively. Interest is payable monthly at a rate of approximately 2.49%. Monthly principal payments of approximately $78,000 are due commencing April 2014 through March 2020, at which time the remaining principal is due. The mortgage loan may be prepaid prior to maturity, but may be subject to a prepayment penalty.

During 2013, the Medical Center entered into a mortgage loan agreement with a bank to borrow up to $30.0 million in order to finance real estate acquisition and renovation. At December 31, 2014 and 2013, approximately $30.0 million and $9.0 million, respectively, was outstanding. Interest is payable monthly at a rate of 1.68% through August 2016, at which time the outstanding principal is due. The mortgage loan may be prepaid prior to maturity, but may be subject to a prepayment penalty.

6. Long-Term Debt (continued)

(h) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2014 and 2013, the primary mortgage amount outstanding was approximately $5.9 million and $6.0 million, respectively. The interest rate is 6.5%, and principal and interest payments of $44,300 are due monthly through January 1, 2035. After December 29, 2019, the primary mortgage may be prepaid without penalty if the subordinate mortgage is no longer outstanding. At December 31, 2014 and 2013, the subordinate mortgage amount outstanding was approximately $12.8 million and bears no interest.

The subordinate mortgage is payable in full on April 30, 2035. After December 29, 2019, the subordinate mortgage may be prepaid without penalty. The effective interest rate of the combined obligation is 2.3%, assuming the obligation is prepaid in 2019. If the mortgages remain outstanding through 2035, the effective interest rate is 1.8%. Housing II has used 1.8% as the interest rate for the purpose of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2014 and 2013, Housing II maintained the reserve for replacement account in accordance with HDC requirements. Monthly deposits aggregating approximately $5,000 are required to be made into this account.

(i) Housing I has a mortgage loan agreement with a lender. At December 31, 2014 and 2013, the principal balance outstanding was approximately $1.3 million and $1.4 million, respectively. The interest rate is 7.6%. Principal and interest payments are due monthly through July 2026. The mortgage loan may be prepaid upon 30-day notice subject to payment of a prepayment penalty of at least 1%. The mortgage loan is secured by a mortgage on the building and underlying property.

6. Long-Term Debt (continued)

(j) MCORP financed the acquisition of certain real estate with the proceeds of two financings: New York City Industrial Development Agency (NYC IDA) revenue bonds and MCORP taxable bonds. Interest on the NYC IDA bonds has an average coupon rate of 4.96%, and payments of interest and principal are payable monthly through October 1, 2035. The NYC IDA bonds may be prepaid without penalty. The bonds were sold at a premium, of which approximately $175,000 and $189,000 was recorded as a component of the related long-term debt as of December 31, 2014 and 2013, respectively, and is being amortized using the effective interest method over the term of the NYC IDA bonds. Interest on the MCORP bonds is payable monthly at a variable rate (1.36% at December 31, 2014). Principal is payable monthly through October 1, 2035. The MCORP bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay letters of credit from a bank in the amounts of approximately $14.0 million and $19.6 million at December 31, 2014 and approximately $14.1 million and $19.8 million at December 31, 2013. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire December 31, 2015.

No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2014 and 2013.

(k) During 2013, the Medical Center issued Build NYC Resource Corporation Revenue Bonds, Series 2013A and Series 2013B (2013 Bonds) of approximately $93.0 million through Build NYC Resource Corporation, to finance a leasehold renovation project secured by a leasehold mortgage. At December 31, 2014 and 2013, a total of approximately $71.1 million and $29.0 million was drawn and outstanding, respectively. Interest on the 2013 Bonds is payable monthly at variable rates (1.39% at December 31, 2014). Monthly payments of principal of approximately $508,000 are due commencing April 2015 through the final maturity date in June 2030. The 2013 Bonds are subject to prepayment without penalty, upon satisfaction of certain notice provisions.

(l) In addition to amounts previously borrowed, the Medical Center borrowed approximately $50.6 million and $25.0 million during the years ended December 31, 2014 and 2013, respectively, under tax-exempt equipment leases to finance equipment acquisitions. The interest rates associated with the Medical Center’s various equipment lease borrowings range from 1.06% to 3.23%.

6. Long-Term Debt (continued)

(m) During 2014, the Medical Center borrowed approximately $40.1 million under a taxable equipment lease to finance certain capital projects. Interest is payable monthly at a variable rate (1.66% at December 31, 2014).

(n) During 2014, the Medical Center commenced a real estate lease for an ambulatory care center. The lease was accounted for as a financing transaction; accordingly, an obligation for approximately $57.7 million was recorded at December 31, 2014. Payments of principal and interest are due monthly beginning September 2015 and extend through September 2030.

(o) Nyack has various debt instruments outstanding with GE Capital Corporation (GECC). At December 31, 2014, amounts outstanding consisted of a Term Loan of $4.7 million, a Revolving Note of $1.2 million, and a Capex Loan of $800,000. The Revolving Note and Term Loan are secured by all of Nyack's existing and after acquired personal and real property. All amounts outstanding are due November 1, 2015. The interest rates associated with Nyack's GECC debt instruments range from 4.73% to 6.75%.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases and amortization of long-term mortgage premium, during the next five years, exclusive of sinking funds requirements, follows (in thousands):

2015	$ 59,994
2016[(1)]	133,220
2017	55,828
2018	53,211
2019	49,269

(1) Includes approximately $76.3 million planned to be converted to a longer-term financing arrangement.

6. Long-Term Debt (continued)

Substantially all of the Health System's property, buildings and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Health System must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts. The Medical Center was in compliance with such covenants at December 31, 2014 and 2013. Nyack was not in compliance with certain monthly financial covenants during 2014. All previous instances of noncompliance have been waived by GECC, and Nyack was in compliance with all covenants at December 31, 2014.

At December 31, 2014 and 2013, the Medical Center had a line of credit with a bank aggregating approximately $8.5 million. There were no amounts drawn down under this line of credit.

Interest paid during the years ended December 31, 2014 and 2013 amounted to approximately $29.8 million and $27.6 million, respectively.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2014	**2013**
	(In Thousands)	
Collateralizing bank financing, teaching and research	**$ 34,800**	$ 34,800
Health care related services	**18,033**	19,608
Construction and renovation projects	**14,705**	11,261
Research	**8,803**	8,837
Other	**942**	392
	$ 77,283	$ 74,898

The Health System follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA), passed into law effective September 2010, as it relates to its permanently restricted endowments.

7. Temporarily and Permanently Restricted Net Assets (continued)

The Health System's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Health System requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Health System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) if applicable, any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until the purpose or time restriction expires. Endowment assets include those assets of donor-restricted funds that the Health System must hold in perpetuity or for a donor-specified term.

The Health System's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Health System must hold in perpetuity or for a donor-specified term.

For the year ended December 31, 2014, the Health System had the following endowment-related activities:

	Year Ended December 31, 2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In Thousands)		
Endowment balance, beginning of year	**$ –**	**$ 1,684**	**$ 25,350**	**$ 27,034**
Investment return:				
Investment income	**509**	**272**	**–**	**781**
Total investment return	**509**	**272**	**–**	**781**
Amounts appropriated for expenditure	**(509)**	**(153)**	**–**	**(662)**
Endowment contributions	**–**	**–**	**17,095**	**17,095**
Contribution received from acquisition of Nyack Hospital and Subsidiaries	**–**	**–**	**419**	**419**
Net change in endowment funds	**–**	**119**	**17,514**	**17,633**
Endowment balance, end of year	**$ –**	**$ 1,803**	**$ 42,864**	**$ 44,667**

7. Temporarily and Permanently Restricted Net Assets (continued)

For the year ended December 31, 2013, the Health System had the following endowment-related activities:

	Year Ended December 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment balance, beginning of year	$ –	$ 1,555	$ 25,350	$ 26,905
Investment return:				
Investment income	284	219	–	503
Total investment return	284	219	–	503
Amounts appropriated for expenditure	(284)	(90)	–	(374)
Net change in endowment funds	–	129	–	129
Endowment balance, end of year	$ –	$ 1,684	$ 25,350	$ 27,034

Permanently restricted net assets amounted to approximately $42.9 million and $25.4 million at December 31, 2014 and 2013, respectively. Endowment contributions recorded during 2014 are related to the acquisition of MNR (see Note 10). At December 31, 2014 and 2013, the fair value of marketable securities (including reinvested earnings over the life of endowments) exceeded the amount of permanently restricted net assets at such dates.

8. Benefit Plans

The Health System maintains several pension plans for its employees. The following are descriptions of such plans and the respective pension expense for the years ended December 31, 2014 and 2013.

Medical Center Plans

The Medical Center is a contributing employer to two union multiemployer pension plans. In addition, the Medical Center also maintains two tax deferred annuity plans under Section 403(b) of the Internal Revenue Code, as well as two noncontributory defined benefit pension plans. The Medical Center also sponsors two unfunded defined benefit postretirement health and welfare plans that cover certain full-time and part-time employees and eligible dependents.

8. Benefit Plans (continued)

Contributions to union multiemployer pension plans are made in accordance with contractual agreements under which contributions are based on a percentage of salaries or a negotiated amount. Contributions to the non-contributory tax deferred annuity plan are based on percentages of salary. Contributions to the noncontributory defined benefit plans are based on actuarial valuations. Benefits under the noncontributory defined benefit plans are based on years of service and salary levels. The Medical Center's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

Total expense, included in employee benefits expense in the accompanying consolidated statements of operations for the various Medical Center pension plans, aggregated approximately $122.8 million and $116.7 million for the years ended December 31, 2014 and 2013, respectively. Cash payments relative to the various Medical Center pension plans aggregated approximately $122.6 million and $114.6 million for the years ended December 31, 2014 and 2013, respectively.

Nyack Plans

Nyack is a contributing employer to a union multiemployer pension plan. Nyack also has a non-contributory defined benefit pension plan covering certain employees hired prior to 1988 who have elected to continue participating in the plan. Nyack's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

Nyack also has two defined contribution pension plans. Contributions to these plans are based on a percentage of salaries and are at the sole discretion of the Board of Trustees of Nyack. Total expense, included in employee benefits expense in the accompanying consolidated statements of operations, of the Nyack defined contribution pension plans was approximately $1.3 million from the date of the acquisition through December 31, 2014. Cash contributions made to the defined contribution pension plans were approximately $3.0 million from the date of acquisition through December 31, 2014. Additionally, Nyack has a postretirement benefit plan that provides eligible employees with health and life insurance benefits.

8. Benefit Plans (continued)

Multiemployer Plans

The Health System contributes to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees, including the New York State Nurses Association Pension Plan (NYSNA) and the 1199SEIU Healthcare Employees Pension Fund (1199SEIU). The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- If an entity of the multiemployer defined benefit pension plan chooses to stop participating in some of its multiemployer plans, the entity may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Health System's participation in these plans for the years ended December 31, 2014 and 2013 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan numbers. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2014 and 2013 is for the plan's year end at December 31, 2013 and 2012, respectively. The zone status is based on information that the Health System received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

8. Benefit Plans (continued)

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status 2014	Pension Protection Act Zone Status 2013	FIP/RP Status Pending Implemented	Contributions from the Health System 2014	Contributions from the Health System 2013	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
					(In Thousands)			
NYSNA	13-6604799/001	**Green**	Green	N/A	**$ 21,409**	$ 18,281	No	1/31/2015
1199SEIU	13-3604862/001	**Green**	Green	N/A	**$ 50,628**	$ 48,226	No	9/30/2015, 4/30/2015

The Medical Center was listed in the plans' Forms 5500 as providing more than 5% of the total contributions for the following plan years:

Pension Fund	Year Contributions to Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)
NYSNA	2013 and 2012
1199SEIU	2013 and 2012

At the date the Health System's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2014.

Defined Benefit Plans

The Health System recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Health System's accounting policy for amortizing such amounts.

Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

8. Benefit Plans (continued)

Included in unrestricted net assets at December 31, 2014 and 2013 are the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension		Postretirement	
	2014	**2013**	**2014**	**2013**
	(In Thousands)			
Unrecognized actuarial loss	**$ 18,681**	$ 10,175	**$ 60,621**	$ 30,033
Unrecognized prior service cost (credit)	**113**	227	**(7,393)**	(9,173)
	$ 18,794	$ 10,402	**$ 53,228**	$ 20,860

The unrecognized net prior service (credit) cost and actuarial loss included in unrestricted net assets expected to be recognized as net periodic benefit cost (credit) during the year ending December 31, 2015 are approximately ($1.4) million and $7.4 million, respectively.

8. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the defined benefit pension plans' benefit obligations and fair value of plan assets for the years ended December 31, 2014 and 2013 and the funded status as of December 31, 2014 and 2013:

	Medical Center	Nyack	Total 2014	Total 2013
		(In Thousands)		
Changes in benefit obligation				
Benefit obligation at January 1	**$ 33,662**	**$ –**	**$ 33,662**	$ 36,743
Inclusion of obligation at Nyack Acquisition Date	**–**	**39,994**	**39,994**	–
Service cost	**3,626**	**186**	**3,812**	3,135
Interest cost	**1,509**	**638**	**2,147**	1,506
Actuarial loss	**7,286**	**1,554**	**8,840**	330
Benefit payments, net	**(4,286)**	**(901)**	**(5,187)**	(3,580)
Plan amendment	**–**	**–**	**–**	(4,472)
Benefit obligation at December 31	**$ 41,797**	**$ 41,471**	**$ 83,268**	$ 33,662
Change in plan assets				
Fair value of plan assets at January 1	**$ 24,762**	**$ –**	**$ 24,762**	$ 21,780
Inclusion of plan assets at Nyack Acquisition Date	**–**	**30,764**	**30,764**	–
Actual return on plan assets	**610**	**1,471**	**2,081**	2,614
Employer contributions	**4,382**	**184**	**4,566**	3,948
Benefit payments	**(4,286)**	**(901)**	**(5,187)**	(3,580)
Fair value of plan assets at December 31	**$ 25,468**	**$ 31,518**	**$ 56,986**	$ 24,762
Funded status				
Amounts recognized in the consolidated statements of financial position	**$ (16,329)**	**$ (9,953)**	**$ (26,282)**	$ (8,900)

8. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the postretirement benefit plans' benefit obligations and fair value of plan assets (where applicable) for the years ended December 31, 2014 and 2013 and the funded status as of December 31, 2014 and 2013:

	Medical Center	Nyack	Total 2014	Total 2013
		(In Thousands)		
Changes in benefit obligation				
Benefit obligation at January 1	**$ 113,771**	**$ –**	**$ 113,771**	$ 120,803
Inclusion of obligation at Nyack Acquisition Date	**–**	**214**	**214**	**–**
Service cost	**8,105**	**–**	**8,105**	7,850
Interest cost	**6,005**	**3**	**6,008**	4,897
Actuarial loss (gain)	**33,085**	**5**	**33,090**	(3,562)
Benefit payments, net	**(5,202)**	**(3)**	**(5,205)**	(5,487)
Plan amendment	**–**	**–**	**–**	(10,730)
Benefit obligation at December 31	**$ 155,764**	**$ 219**	**$ 155,983**	$ 113,771
Change in plan assets				
Fair value of plan assets at January 1	**$ –**	**$ –**	**$ –**	$ –
Inclusion of plan assets at Nyack Acquisition Date	**–**	**–**	**–**	**–**
Employer contributions	**5,202**	**3**	**5,205**	5,487
Benefit payments	**(5,202)**	**(3)**	**(5,205)**	(5,487)
Fair value of plan assets at December 31	**$ –**	**$ –**	**$ –**	$ –
Funded status				
Amounts recognized in the consolidated statements of financial position	**$ (155,764)**	**$ (219)**	**$ (155,983)**	$ (113,771)

The plan amendments are primarily attributable to the Medical Center's adoption of the implementation of an Employer Group Waiver Plan, effective January 1, 2014.

The actuarial loss in 2014 is primarily related to changes in assumptions in the discount rate and mortality table and mortality projection scale used to measure the benefit obligation at December 31, 2014.

8. Benefit Plans (continued)

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2014 and 2013 was approximately $30.9 million and $25.2 million, respectively. The accumulated benefit obligation for Nyack's defined benefit plans as of December 31, 2014 was approximately $40.8 million.

The following table provides the components of the net periodic benefit cost for the defined benefit pension plans for the years ended December 31, 2014 and 2013:

	Medical Center	**Nyack**	**Total 2014**	**Total 2013**
		(In Thousands)		
Service cost	**$ 3,626**	**$ 186**	**$ 3,812**	$ 3,135
Interest cost	**1,509**	**638**	**2,147**	1,506
Expected return on plan assets	**(1,575)**	**(873)**	**(2,448)**	(1,420)
Amortization of prior service cost	**113**	**–**	**113**	227
Amortization of net loss	**702**	**–**	**702**	852
Net periodic benefit cost	**$ 4,375**	**$ (49)**	**$ 4,326**	$ 4,300

The following table provides the components of the net periodic benefit cost for the postretirement benefit plans for the years ended December 31, 2014 and 2013:

	Medical Center	**Nyack**	**Total 2014**	**Total 2013**
		(In Thousands)		
Service cost	**$ 8,105**	**$ –**	**$ 8,105**	$ 7,850
Interest cost	**6,005**	**3**	**6,008**	4,897
Amortization of prior service cost (benefit)	**(1,779)**	**–**	**(1,779)**	(1,557)
Amortization of net loss	**2,501**	**–**	**2,501**	3,390
Net periodic benefit cost	**$ 14,832**	**$ 3**	**$ 14,835**	$ 14,580

8. Benefit Plans (continued)

The weighted-average assumptions used in the measurement of the Health System's benefit obligations at December 31, 2014 and 2013 are shown in the following table:

	Pension			
	Medical Center		Nyack	
	2014	2013	2014	2013
Discount rate	**3.31%–4.06%**	4.00%–5.30%	**3.59%**	N/A
Rate of compensation increases	**3.00%–4.00%**	3.00%–4.00%	**3.50%**	N/A

	Postretirement			
	Medical Center		Nyack	
	2014	2013	2014	2013
Discount rate	**4.00%**	5.40%	**3.50%**	N/A
Rate of compensation increases	**3.00%**	3.00%	**–**	N/A

The weighted-average assumptions used in the measurement of the Health System's net periodic benefit cost for the years ended December 31, 2014 and 2013 are shown in the following table:

	Pension			
	Medical Center		Nyack	
	2014	2013	2014	2013
Discount rate	**4.00%-5.30%**	4.50%	**3.90%**	N/A
Expected long-term rate of return on plan assets	**6.50%**	6.50%	**7.00%**	N/A
Rate of compensation increase	**3.00%-4.00%**	3.00%–4.00%	**3.50%**	N/A

	Postretirement			
	Medical Center		Nyack	
	2014	2013	2014	2013
Discount rate	**5.40%**	4.50%	**3.75%**	N/A

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2014 and 2013.

8. Benefit Plans (continued)

During the year ending December 31, 2015, the Health System expects to contribute approximately $3.4 million and $5.5 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2014 follow:

	Pension		Postretirement	
	Medical Center	Nyack	Medical Center	Nyack
	(*In Thousands*)			
2015	$ 2,950	$ 1,984	$ 5,513	$ 14
2016	2,811	2,221	5,802	14
2017	3,580	2,362	6,195	14
2018	5,351	2,441	6,617	14
2019	11,430	2,498	7,103	14
2020–2024	25,973	12,931	45,105	67

Medical Center Plans Assumptions

The overall expected long-term rate of return on plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the plan's desired risk and return characteristics. The Medical Center's independent consulting actuaries review the expected long-term rate periodically and, based on the building block approach, updated the rate for changes in the marketplace.

The Medical Center's defined benefit pension plan weighted-average asset allocations, by asset category, are as follows:

	December 31	
	2014	2013
Equity securities	**27%**	24%
Debt securities	**6**	8
Alternative investments	**27**	26
Equity mutual/common trust funds	**32**	41
Cash and cash equivalents	**8**	1
Total	**100%**	100%

8. Benefit Plans (continued)

Defined benefit pension plan assets are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities, and alternative investments. Alternative investments are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting. Refer to Note 11 for additional fair value measurement information related to the defined benefit plan asset categories noted in the table above.

The target allocations for the defined benefit pension plan's assets are as follows:

U.S. stocks	17-27%
Non-U.S. stocks	10-20%
Global stocks	6-9%
Bonds	19-30%
Hedge funds	12-22%
Private equity funds	0-10%

Assumed health care cost trend rates at December 31 are as follows:

	2014	**2013**
Health care cost trend rate	**7.95%**	8.20%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00%**	5.00%
Years that the rate reaches the ultimate trend rate	**2022–2023**	2021–2022

8. Benefit Plans (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the defined benefit postretirement plans. A 1% change in assumed health care cost trend rates would have the following effects relating to the postretirement plans:

	2014		2013	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	**$ 2,500**	**$ (2,000)**	$ 2,200	$ (1,800)
Effect on the health care component of the accumulated postretirement benefit obligation	**25,300**	**(20,600)**	15,500	(12,700)

Nyack Plan Assumptions

The expected long-term rate of return on plan assets assumption was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – *Selection of Economic Assumptions for Measuring Pension Obligations*. Based on the investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. The selected rate is based upon the best estimate range.

Nyack's pension plan weighted-average asset allocations at December 31, 2014 by asset category are as follows:

Asset category:	
Equity securities	35%
Debt securities	60
Real estate	5
	100%

8. Benefit Plans (continued)

The overall investment philosophy of Nyack is to manage the plan assets in a prudent, conservative, yet productive, manner. Periodically, the plan asset guidelines are evaluated and adjusted to meet current market conditions and plan needs. Maximizing the preservation of capital is of prime importance. The target asset allocation permissible ranges by asset category are as follows:

Asset category:	
Equities and real estate	40%–60%
Fixed income	40%–60%

9. Contingencies and Other

Claims have been asserted against the Health System by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through December 31, 2014 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Health System management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Health System management, based on prior experience, that adequate insurance is maintained and adequate provisions for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material adverse effect on the Health System's consolidated financial position.

Medical Center Insurance Liabilities

The Medical Center participates in a pooled insurance program for professional and general liabilities with certain other health care facilities (principally hospitals) affiliated with the UJA Federation of Jewish Philanthropies of New York (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies. Participation in the FOJP Program began in April 1977. The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998, becoming self-insured for a portion of the coverage for this period. At December 31, 2012, the Medical Center had liabilities recorded of approximately $2.0 million related to this self-insured period. During 2013, the self-insured plan paid out its last claim up to the $26.0 million maximum plan payout. No liability was required for the self-insured period at December 31,

9. Contingencies and Other (continued)

2014 and 2013. For the period beginning January 1, 1999, the Medical Center's malpractice insurance program reverted to a program similar to the arrangement that existed prior to January 1, 1998. Beginning in 2002, the insurance program offered a deferred premium arrangement, in which 40% of the annual premium is paid in the current year and the balance is payable over three years.

As of December 31, 2014, the Medical Center retained ownership interests in three captive insurance companies affiliated with the FOJP Program, ranging from 17% to 25%. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately $140.8 million and $97.2 million at December 31, 2014 and 2013, respectively) are included in deferred financing costs and other non-current assets in the accompanying consolidated statements of financial position. Total liabilities associated with this program were approximately $206.9 million and $196.7 million at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, approximately $70.3 million and $71.3 million, respectively, were included in other payables and accrued expenses in the accompanying consolidated statements of financial position. The liabilities principally relate to the deferred premium arrangement, the participating hospitals' guarantee of certain investment returns of the captive companies and retroactive premium adjustments.

In February 2014, the FOJP program and the various affiliated captive insurance companies began an internal investigation into several insurance regulatory and related matters that had come to the attention of the FOJP companies' management. The FOJP companies, at the direction of their Boards, engaged independent legal counsel and an independent forensic consulting firm to conduct an investigation into various matters. The FOJP companies and legal counsel reported the preliminary investigative findings to the New York State Department of Financial Services (DFS), the primary State insurance regulator. DFS also is conducting an investigation into the issues that were raised and related matters. The FOJP companies and DFS are engaged in ongoing discussions regarding the consequences, if any, of past activities identified in the investigation, appropriate remediation and potential impact on the future operations of the FOJP companies. As of December 31, 2014, the Medical Center has accrued an estimate of potential liabilities in connection with this matter; however, it is not possible to predict the final outcome of the investigations or actions DFS or other regulators might take in response. It is possible that an adverse outcome with respect to this matter could have a material adverse effect on the Health System's consolidated financial position, exceeding amounts accrued in the consolidated financial statements, although such outcome cannot be estimated at this time.

9. Contingencies and Other (continued)

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately $454.9 million (approximately $68.2 million current and $386.7 million long-term) and approximately $472.2 million (approximately $70.8 million current and $401.4 million long-term) at December 31, 2014 and 2013, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 2.8% to 5.0% at December 31, 2014 and 2013, respectively, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2014 and 2013 consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians, as well as the effects of providing patient care in Bronx County, where malpractice premiums are among the highest in New York State and the nation.

During the year ended December 31, 2014, the Medical Center recorded approximately $9.4 million of malpractice insurance program adjustments associated with investment earnings shortfall. Such amounts were reflected in other payables and accrued expenses (approximately $2.3 million) and non-current defined benefit and postretirement health plan and insurance liabilities (approximately $7.1 million) in the consolidated statement of financial position at December 31, 2014. In addition, at December 31, 2014, approximately $9.4 million was reflected in assets limited as to use (internally designated) in the accompanying consolidated statement of financial position.

Nyack Insurance Liabilities

Nyack has been self-insured for professional liability losses since October 15, 1979. Since March 1, 2008, Nyack has purchased excess malpractice insurance with total annual limits of $10.0 million. The excess insurance covers individual claims in excess of $1.0 million and aggregate claims in excess of $3.0 million. Nyack has extended the excess insurance coverage on an annual basis for the periods January 1, 2009 to March 1, 2016.

The estimated malpractice liability and the required funding level are based upon an actuarial valuation of the estimated effect of probable loss contingencies, including provisions for known and unknown incidents incurred but not yet reported and estimated legal fees. Accrued malpractice losses have been discounted at 2.5% at December 31, 2014 and, in management's opinion, provide an adequate reserve for loss contingencies. Malpractice liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program.

9. Contingencies and Other (continued)

The estimated malpractice liability recorded at December 31, 2014 is approximately $9.1 million.

The estimates for malpractice liabilities are based upon complex actuarial calculations, which utilize factors, such as historical claim experience for Nyack and related industry factors, trending models, estimates for the payment and loss development patterns of future claims and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

Other

At December 31, 2014, the Medical Center had a letter of credit from a bank aggregating approximately $1.0 million, which expires December 15, 2015, for the benefit of its captive insurance companies. The outstanding letter of credit was secured by approximately $1.5 million of marketable securities held as collateral in the consolidated statement of financial position at December 31, 2014.

At December 31, 2014 and 2013, approximately 63% of the Health System's employees were covered by collective bargaining agreements. The Medical Center, MNR, MMV and SECC entered into collective bargaining agreements with NYSNA which expired during 2013 and 2014. In June 2015, the Medical Center reached a tentative settlement with NYSNA. MNR, MMV and SECC are currently renegotiating NYSNA agreements. Nyack's contract with NYSNA extends through December 31, 2017. The Medical Center's collective bargaining agreements with 1199SEIU will expire in September 2018. Nyack's contract with 1199SEIU expired on April 30, 2015 and is currently being renegotiated.

In connection with agreements entered into between MIPA and several health insurance companies, the Medical Center has agreed to guarantee the performance and payment of certain hospital, physician and administrative services.

10. Acquisitions

Nyack Hospital and Subsidiaries Acquisition

On August 1, 2014 (the Nyack Acquisition Date), the Health System acquired Nyack Hospital and Subsidiaries, a not-for-profit community health care provider located in Rockland County, New York. The Health System acquired Nyack by means of an inherent contribution, where no consideration was transferred by the Health System. The Health System accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the Nyack Acquisition Date. The results of Nyack's operations have been included in the consolidated financial statements since the Nyack Acquisition Date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Nyack Acquisition Date:

	August 1, 2014 *(In Thousands)*
Assets	
Cash and cash equivalents	$ 1,963
Assets limited as to use	2,161
Receivables for patient care	23,804
Other receivables	3,556
Other current assets	4,971
Property, buildings and equipment	65,499
Other non-current assets	9,131
Total assets acquired	111,085
Liabilities	
Trade accounts payable	16,357
Other payables and accrued expenses	5,948
Accrued salaries, wages and related items	14,808
Debt	8,856
Defined benefit, postretirement health plan and insurance liabilities	18,348
Other non-current liabilities	9,065
Total liabilities assumed	73,382
Excess of assets acquired over liabilities assumed	$ 37,703
Net assets acquired	
Unrestricted net assets	$ 33,035
Temporarily restricted net assets	4,249
Permanently restricted net assets	419
	$ 37,703

10. Acquisitions (continued)

The following table summarizes amounts attributable to Nyack since the Nyack Acquisition Date that are included in the accompanying consolidated statement of operations:

	Period from August 1, 2014 to December 31, 2014
	(In Thousands)
Total operating revenue	$ 98,565
Total operating expenses	98,355
Income from operations before certain items	210
Other losses related to certain items	(6)
Income from operations	$ 204
Changes in net assets:	
Unrestricted net assets	$ (661)
Temporarily restricted net assets	39
Permanently restricted net assets	–
Total change in net assets	$ (622)

The following table represents unaudited pro forma financial information of the Health System, assuming the acquisition of Nyack had taken place on January 1, 2013. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the Nyack Acquisition Date.

	Year Ended December 31	
	2014	2013
	(In Thousands)	
Total operating revenue	**$ 3,968,299**	$ 3,613,433
Total operating expenses	**3,955,488**	3,504,489
Income from operations before certain items	**12,811**	108,944
Other gains related to certain items	**11,445**	76,810
Income from operations	**$ 24,256**	$ 185,754
Changes in net assets:		
Unrestricted net assets	**$ (18,359)**	$ 221,445
Temporarily restricted net assets	**(2,604)**	907
Permanently restricted net assets	**17,095**	–
Total change in net assets	**$ (3,868)**	$ 222,352

10. Acquisitions (continued)

Montefiore Sound Shore Health System, Inc. Acquisition

On May 29, 2013, Sound Shore Health System, Inc. and certain subsidiaries and affiliates (SSHS), including Sound Shore Medical Center of Westchester, The Mount Vernon Hospital, Inc. and Howe Avenue Nursing Home (collectively, the Debtors) filed petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). Simultaneously with the bankruptcy filings, certain of the Debtors filed a motion to sell substantially all of their assets to several newly formed MHS subsidiaries for approximately $68.9 million, subject to various adjustments, in accordance with an asset purchase agreement (the Purchase Agreement).

On November 6, 2013 (the SSHS Acquisition Date), the Health System acquired certain assets of SSHS, including Sound Shore Medical Center of Westchester, The Mount Vernon Hospital and Howe Avenue Nursing Home located in Westchester County, New York. The Health System accounted for this business combination by applying the acquisition method and, accordingly, valued all assets acquired (primarily land, buildings and equipment) at fair value as of the SSHS Acquisition Date. The fair value of the assets acquired at the SSHS Acquisition Date was approximately $68.9 million. In addition, approximately $17.1 million of donor restricted assets and endowment funds were transferred to MNR and recorded during 2014 upon obtaining regulatory approval. The Health System currently operates these facilities as MNR, MMV, SECC, SS Holdings, MV Holdings and HA Holdings. MNR, MMV and SECC, as part of the transaction to acquire certain assets of SSHS, agreed to assume the Medicare and Medicaid Provider Agreements of the former entities and responsibility for certain payments made for services prior to the closing. The results of these operations have been included in the accompanying consolidated financial statements since the SSHS Acquisition Date.

Under the terms of the Purchase Agreement, the Medical Center entered into a $9.5 million letter of credit in favor of the Debtors' senior secured lender as a collateral pledge to support the repayment of SSHS' obligations to such lender. On February 10, 2014, the letter was terminated.

10. Acquisitions (continued)

The following table summarizes amounts attributable to MNR, MMV, SECC, SS Holdings, MV Holdings and HA Holdings from the SSHS Acquisition Date through December 31, 2013 that are included in the accompanying 2013 consolidated statement of operations:

	Period from November 6, 2013 to December 31, 2013
	(In Thousands)
Total operating revenue	$ 37,660
Total operating expenses	43,514
Loss from operations	(5,854)
Transfers from affiliates	1,060
Decrease in unrestricted net assets	$ (4,794)
Changes in net assets:	
Unrestricted net assets	$ (4,794)
Temporarily restricted net assets	–
Permanently restricted net assets	–
Total change in net assets	$ (4,794)

Supplemental pro forma information as though the acquisition had occurred as of January 1, 2013 has not been presented, due to the fact that the relevant financial information for that period is not available.

Montefiore Westchester Square

On March 23, 2013 (the Montefiore Westchester Acquisition Date), the Medical Center acquired certain assets of New York Westchester Square Medical Center (WSMC) located in the Bronx, New York. The Medical Center utilized the proceeds from a New York State Department of Health HEAL grant to complete the approximate $15.9 million acquisition. The Medical Center accounted for this business combination by applying the acquisition method and, accordingly, valued all assets acquired (primarily land, buildings and equipment) at fair value as of the Montefiore Westchester Acquisition Date. The Medical Center currently operates a full-service emergency department and ambulatory surgery center at the WSMC location, known as Montefiore Westchester Square. The results of these operations have been included in the consolidated financial statements since the Montefiore Westchester Acquisition Date.

10. Acquisitions (continued)

The fair value of the assets acquired at the Montefiore Westchester Acquisition Date was approximately $15.9 million. For the period from March 23, 2013 to December 31, 2013, this operation generated revenue and expense of approximately $16.6 million and $21.1 million, respectively, before the impact of increased admissions to the Medical Center's inpatient facilities.

Supplemental pro forma information as though the acquisition had occurred as of January 1, 2013 has not been presented, due to the fact that the relevant financial information for that period is not available.

11. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Health System measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Health System's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Health System follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Health System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

11. Fair Value Measurements (continued)

Financial assets carried at fair value, including assets invested in the Health System's defined benefit plans, are classified in the table below in one of the three categories described above as of December 31, 2014 and 2013:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Assets				
Cash and cash equivalents	**$ 77,561**	**$ –**	**$ –**	**$ 77,561**
Managed cash and cash equivalents held for investment	**76,943**	**–**	**–**	**76,943**
Marketable and other securities:				
Non-equity mutual funds:				
U.S. non-equity mutual funds	**104,291**	**–**	**–**	**104,291**
International non-equity mutual funds	**4,186**	**–**	**–**	**4,186**
Equity mutual funds:				
U.S. equity mutual funds	**161,516**	**–**	**–**	**161,516**
U.S. Government agency mortgage-backed securities	**–**	**35,658**	**–**	**35,658**
U.S. Treasury securities	**92,299**	**–**	**–**	**92,299**
U.S. Government agency backed securities	**–**	**57,284**	**–**	**57,284**
U.S. equity securities	**58,348**	**–**	**–**	**58,348**
Corporate debt	**354,913**	**–**	**–**	**354,913**
Interest and other receivables	**18,066**	**–**	**–**	**18,066**
Defined benefit plan assets				
Cash and cash equivalents	**2,193**	**–**	**–**	**2,193**
Alternative investments:				
Hedge funds[(a)]	**–**	**4,241**	**–**	**4,241**
Private equity funds[(b)]	**–**	**–**	**2,504**	**2,504**
Equity securities[(c)]	**6,956**	**–**	**–**	**6,956**
Equity mutual funds[(d)]	**10,873**	**–**	**–**	**10,873**
Non-equity mutual funds	**16,185**	**–**	**–**	**16,185**
Collective trust funds[(e)]	**–**	**12,608**	**–**	**12,608**
Debt securities[(f)]	**1,426**	**–**	**–**	**1,426**
Total financial instruments, at fair value	**$ 985,756**	**$ 109,791**	**$ 2,504**	**$ 1,098,051**

11. Fair Value Measurements (continued)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets				
Cash and cash equivalents	$ 75,255	$ –	$ –	$ 75,255
Managed cash and cash equivalents held for investment	60,645	–	–	60,645
Marketable and other securities:				
Non-equity mutual funds:				
U.S. non-equity mutual funds	133,104	–	–	133,104
International non-equity mutual funds	5,086	–	–	5,086
Equity mutual funds:				
U.S. equity mutual funds	161,286	–	–	161,286
U.S. Government agency mortgage-backed securities	–	45,407	–	45,407
U.S. Treasury securities	128,101	–	–	128,101
U.S. Government agency backed securities	–	62,006	–	62,006
U.S. equity securities	51,042	–	–	51,042
Corporate debt	390,560	–	–	390,560
Interest and other receivables	3,852	–	–	3,852
Defined benefit plan assets				
Cash and cash equivalents	396	–	–	396
Alternative investments:				
Hedge funds[(a)]	–	4,276	–	4,276
Private equity funds[(b)]	–	–	2,181	2,181
Equity securities[(c)]	5,960	–	–	5,960
Equity mutual funds[(d)]	3,401	–	–	3,401
Non-equity mutual funds	2,921	–	–	2,921
Collective trust funds[(e)]	–	3,751	–	3,751
Debt securities[(f)]	1,876	–	–	1,876
Total financial instruments, at fair value	$ 1,023,485	$ 115,440	$ 2,181	$ 1,141,106

[(a)] Hedge fund investments, consisting primarily of publicly traded equity holdings with both long and short positions.
[(b)] Venture capital partnerships.
[(c)] Includes small and large cap common stock of corporations primarily domiciled in the United States.
[(d)] Includes investments in mutual funds that invest primarily in domestic large cap common stock.
[(e)] Collective trusts invest primarily in common stock of corporations domiciled in the United States.
[(f)] Includes investments in corporate bonds.

11. Fair Value Measurements (continued)

At December 31, 2014 and 2013, the Health System's alternative investments and collective trusts, excluding those within the defined benefit plans, are reported using the equity method of accounting in the amount of approximately $219.6 million and $203.9 million, respectively, and, therefore, are not included in the tables above.

The following is a description of the Health System's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Level 3 assets consist of alternative investments included in the defined benefit plan assets, the valuation for which is described in Note 8. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the years ended December 31, 2014 and 2013:

	December 31	
	2014	**2013**
	(In Thousands)	
Fair value at January 1	**$ 2,181**	$ 599
Actual return on plan assets sold during year	**58**	53
Actual return on plan assets held at end of year	**76**	(45)
Purchases, sales, and settlements, net	**189**	1,574
Fair value at December 31	**$ 2,504**	$ 2,181

11. Fair Value Measurements (continued)

The carrying values and fair values of the Health System's financial instruments that are not required to be carried at fair value are as follows at December 31:

	2014		2013	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
	(In Thousands)			
Long-term debt	**$ 818,526**	**$ 810,954**	$ 646,409	$ 638,523

The fair value of the Health System's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses, using estimated borrowing rates for similar types of debt. Fair value of bonds payable is classified as Level 1, while fair value of other debt is classified as Level 2.

12. Concentration of Credit Risk

At December 31, 2014 and 2013, excluding investments in bond mutual funds, approximately 20% and 24%, respectively, of the Health System's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2014 and 2013, significant concentrations of receivables for patient care include approximately 16% and 20% from Medicaid, 13% and 13% from Medicare and 69% and 63% from commercial and managed care organizations, respectively, of which no individual commercial or managed care organization equaled 11% or greater.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 34% and 32%, and the Medicaid and Medicaid managed care programs accounted for approximately 31% and 32% of the Health System's net patient service revenue for the years ended December 31, 2014 and 2013, respectively. No other specific payer exceeded 20% of net patient service revenue.

13. Other Operating Revenue

Other operating revenue included in the consolidated statements of operations and changes in unrestricted net assets for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
	(In Thousands)	
Shared savings programs	**$ 13,657**	$ 23,290
Patient care quality incentive revenue	**18,578**	18,186
Interest and dividend income	**13,620**	17,261
Staff housing and other rental income	**16,514**	14,891
Equity earnings from investments	**7,302**	10,559
Government Electronic Health Record Incentive Program	**9,374**	8,995
Continuing Medical Education programs	**9,608**	8,880
Information system services	**6,645**	7,660
Parking revenue	**4,616**	4,452
Cafeteria revenue	**6,399**	4,451
Net assets released from restrictions used for operations	**4,633**	3,574
All other	**24,740**	23,714
	$ 135,686	$ 145,913

In 2012, the Medical Center entered into an agreement to participate in the Center for Medicare and Medicaid Innovation Pioneer Accountable Care Organization program. During the year ended December 31, 2014, the Medical Center recorded approximately $13.7 million of shared savings revenue. During the year ended December 31, 2013, the Medical Center recorded approximately $23.3 million, of which approximately $14.0 million was attributable to the year ended December 31, 2012. At December 31, 2012, the amount of shared savings program revenue was not determinable.

The Medical Center also has several agreements under which insurance companies provide for additional revenue when certain patient care quality thresholds are met.

Audit Reports and Schedules Related to OMB Circular A-133

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services					
Direct grants and contracts:					
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086				$ 849,258
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153				2,010,193
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224				2,468,602
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243				315,413
Geriatric Academic Career Awards	93.250				134,454
Cancer Cause and Prevention Research	93.393			446,603	446,603
Cancer Treatment Research	93.395			222,470	222,470
Affordable Care Act (ACA) for School-Based Health Center Capital Expenditures	93.501				542,573
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526				234,470
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			14,528	14,528
Grants for Primary Care Training and Enhancement	93.884				576,126
Grants to provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918				1,572,253
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924				276,404
HIV Prevention Activities Non-Governmental Organization Based	93.939				249,937
Subtotal direct grants and contracts				683,601	9,913,284

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Pass-through programs:					
Global AIDS	93.067	TB/HIV Care Association	5U2G/GH0030602		$ 69,452
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)Aligned Cooperative Agreements	93.074	Public Health Solutions	14-MONTE-02	41,294	41,294
Food and Drug Administration_Research	93.103	Albert Einstein College of Medicine	7R01FD00344703	1,304	1,304
Maternal and Child Health Federal Consolidated Programs	93.110	Albert Einstein College of Medicine	U38MC22216	41,215	41,215
Maternal and Child Health Federal Consolidated Programs	93.110	March of Dimes	U33MC12786		93,786
Maternal and Child Health Federal Consolidated Programs	93.110	Albert Einstein College of Medicine	U43MC18276 KL2TR000088		148,672
	Total 93.110				242,458
Environmental Health	93.113	Albert Einstein College of Medicine	2R01ES00383025	223,341	223,341
AIDS Education and Training Centers	93.145	Columbia University	5H4AHA000711200		73,162
AIDS Education and Training Centers	93.145	New York State Department of Health	CO27232A		318,055
	Total 93.145				391,217
Research on Healthcare Costs, Quality and Outcomes	93.226	Albert Einstein College of Medicine	K08HS021282 R25HS023199 R01HS023608 1R25HS023199-01	155,906	155,906

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Research on Healthcare Costs, Quality and Outcomes	93.226	Johns Hopkins University	HH2901100007C	$ 86,598	$ 86,598
National Center on Sleep Disorders Research	93.233	Albert Einstein College of Medicine	5RO1HL105212-02	62,867	62,867
Mental Health Research Grants	93.242	Albert Einstein College of Medicine	K23MH10211801A2 5R01MH08513203	23,190	23,190
Occupational Safety and Health Program	93.262	Albert Einstein College of Medicine	1U01OH010412-01 1U01OHO41201 1U01OH01051301 1UO1OHO10411201	147,482	147,482
Occupational Safety and Health Program	93.262	New York City Fire Department	U100H0084205QW1	1,312,095	1,312,095
Immunization Cooperative Agreements	93.268	New York City Department of Health and Mental Hygiene	N/A		7,752,540
Immunization Cooperative Agreements	93.268	New York State Vaccines for Children Program	N/A		483,073
	Total 93.268				8,235,613

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Drug Abuse and Addiction Research Programs	93.279	Albert Einstein College of Medicine	R01DA03255202 R01DA03408602 5R25DA023021-07 1R25DA023021-01 1K23DA03454101 5RO1DA03211003 5R25DA02302107 1R01DA03644501 1R3DA03106601 1R34DA037042-01 5R25DA023021-07	$ 579,033	$ 579,033
Minority Health and Health Disparities Research	93.307	Albert Einstein College of Medicine	5P60MD000514-08	63,260	63,260
Trans-NIH Research Support	93.310	Albert Einstein College of Medicine	5UH2TR00093301 UH2TR000933	40,199	40,199
National Center for Advancing Translational Sciences	93.350	Albert Einstein College of Medicine	5UL1TR0010730 9R44TR00087302 5KL2TR001071-02 UL1TR001O73	142,844	142,844
Nursing Research	93.361	Albert Einstein College of Medicine	R21NR013745	10,685	10,685
National Center for Research Resources	93.389	Albert Einstein College of Medicine	5UL1RR025750	13,331	13,331

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Cancer Cause and Prevention Research	93.393	Albert Einstein College of Medicine	5R01CA14896603 P01CA10032411A1 R01CA17443201A1 5R01CA180126-02 2P30CA013330-40	$ 478,871	$ 478,871
Cancer Cause and Prevention Research	93.393	Mount Sinai School of Medicine	5R01CA14896603	12,070	12,070
Cancer Detection and Diagnosis Research	93.394	Frontier Science	U24CA11473705S2	172,603	172,603
Cancer Treatment Research	93.395	Albert Einstein College of Medicine	U10-CA02115-36 U10-CA01495838 5d43CA153793 2R44HL10686202A 1RO1CA17463401A 1R01CA17050701	240,037	240,037
Cancer Treatment Research	93.395	Frontier Science	U10CA021115	62,825	62,825
Cancer Treatment Research	93.395	Moffitt	2RO1CA09847306A	9,200	9,200
Cancer Treatment Research	93.395	National Childhood Cancer Foundation	U10 CA 98543-03	28,609	28,609
Cancer Biology Research	93.396	Albert Einstein College of Medicine	1U19CA179564-01	23,916	23,916
Cancer Centers Support Grants	93.397	Emmes Corporation	2U01CA12194704	129,789	129,789

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Cancer Research Manpower	93.398	Albert Einstein College of Medicine	5K12CA13278305 K12CA132783 1K12CA13278301A	$ 440,718	$ 440,718
Temporary Assistance for Needy Families	93.558	New York City Human Resources Administration	CT-20111434071		201,910
Health Care Innovation Awards (HCIA)	93.610	Albert Einstein College of Medicine	TC-009-I3 1C1CMS330964010 80528		614,367
Social Services Block Grant	93.667	New York City Administration for Child Services	068-20120000464 068-20141409778		827,487
Trans -NIH Recovery Act Research Support	93.701	Duke University	1RC2AR05893401	27,024	27,024
Medical Assistance Program	93.778	New York City Human Resources Administration	CT-20111434071		129,090
Medical Assistance Program	93.778	New York State Department of Health	C023917		7,339
	Total 93.778				136,429
Health Careers Opportunity Program	93.822	Albert Einstein College of Medicine	D18HP13629		1,464

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Cardiovascular Diseases Research	93.837	Albert Einstein College of Medicine	1UM1HL10872401A 1UH2HL12511901 R01HL111459 U1OHL068270 UM1HL088939 R01HL10213001A1 SPS 109998 1KHL10579001	$ 313,464	$ 313,464
Cardiovascular Diseases Research	93.837	Mount Sinai School of Medicine	7RO1HL105084	12,700	12,700
Cardiovascular Diseases Research	93.837	University of Miami	5RO1Hl10909002	10,213	10,213
Lung Diseases Research	93.838	Albert Einstein College of Medicine	7R01HL10871201 K23HL11873301A1 U01HL101456 1U01HL12299801	212,012	212,012
Blood Diseases and Resources Research	93.839	Albert Einstein College of Medicine	5KL2RR0257749	74,939	74,939
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Albert Einstein College of Medicine	U34AR064496	3,283	3,283
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Albert Einstein College of Medicine	DP3DK101078 7RO1DK08559702 U01DK066174 5T32DK00711036 R21DK08944701 5P60DK0254135	310,754	310,754

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of Michigan	U54DK08391201	$ 18,835	$ 18,835
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Rhode Island Hospital	1R21DK093839	17,617	17,617
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Children's Memorial Hospital of Cincinnati	5U01NS04591109	74,079	74,079
Allergy and Infectious Diseases Research	93.855	Health Research, Inc.	RO1AI065200	59,201	59,201
Allergy and Infectious Diseases Research	93.855	Rush University	1P01AI08297102	28,236	28,236
Allergy and Infectious Diseases Research	93.855	University of Pittsburgh	7U01A107786702	3,043	3,043
Allergy and Infectious Diseases Research	93.855	Albert Einstein College of Medicine	5U01NS077308 1P2ONS08018501 2R37NS04320911 5R01AI06530910 K12HD065742 01AI104336 5U19AI103461-02 1K23AI083088-01 2U01AI03500420 UO1A10967299 5U19AI09117505 P30AI0515190S1 5P30A1051519	3,189,571	3,189,571

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Child Health and Human Development Extramural Research	93.865	Albert Einstein College of Medicine	1K23HD081077-01 RO1HG006266 1K23HD067247 2K12HD00084926 5U01HD05565108 5U011HD04049915 K12HD000849 2U1HD040474	$ 1,228,666	$ 1,228,666
Aging Research	93.866	Albert Einstein College of Medicine	R01AG04400702S1 5P01AG00304929 R01AG35117. R21AG03693501A1 1K23AG03310001A RO3AG040673 5PO1AG3178202	209,631	209,631
National Bioterrorism Hospital Preparedness Program	93.889	Public Health Solutions, Inc.	1210MONTE_006	154,492	154,492
HIV Care Formula Grants	93.917	New York State Department of Health AIDS Institute	3625-06 3425-06		144,414
Special Projects of National Significance	93.928	Albert Einstein College of Medicine	H97HA15152		89,106
National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	Bronx AIDS Services	UO1A1068619	27,572	27,572
HIV Prevention Activities_Non-Governmental Organization Based	93.939	Bronx AIDS Services	U65PS00351402		21,403

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S Department of Health and Human Services (continued)					
Maternal and Child Health Services Block Grants to the States	93.994	New York State Genetic Services	C023840		$ 57,590
Maternal and Child Health Services Block Grants to the States	93.994	New York State Department of Health	C022462		187,993
	Total 93.994				245,583
NIAID/DMD Bacteriology and Mycology NIH	93.RD	Duke University	HHSN2722009000023C	74,790	74,790
Healthcare Research and Quality	93.RD	Johns Hopkins University	HHSA290201100007C	32,157	32,157
Hispanic Community Study	93.RD	Albert Einstein College of Medicine	HHSN26820130000	25,696	25,696
Hepatitis C Birth Cohort Study	93.RD	Albert Einstein College of Medicine	HHSP2332009S647	21,038	21,038
Parents and Children Together (PACT) Project for the U.S. Department of Health and Human Services	93.unknown	Mathematica Policy Research, Inc.	HHSP23320095642		340,919
Subtotal pass-through programs				10,672,295	22,234,117
Total U.S. Department of Health and Human Services				11,355,896	32,147,401
U.S. Department of Defense:					
Pass-Through Program:					
Military Medical Research and Development	12.420	Albert Einstein College of Medicine	W81XWH1210379	10,502	10,502
Total U.S. Department of Defense				10,502	10,502

Montefiore Health System, Inc.

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/ Contract Number	Pass-through Grantor	Pass-Through ID Number	R&D Cluster	Federal Expenditures
U.S. Department of Agriculture:					
Pass-Through Programs:					
Agriculture and Food Research Initiative (AFRI)	10.310	Albert Einstein College of Medicine	20116800130207		$ 46,510
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	New York State Department of Health	C023629		21,536,411
Total U.S. Department of Agriculture					21,582,921
U.S. Department of Housing and Urban Development:					
Direct programs:					
Mortgage Insurance – Hospitals	14.128				100,412,000[(a)]
Supplemental Loan Insurance – Multifamily Rental Housing	14.151				296,920,000[(b)]
Total U.S. Department of Housing and Urban Development					397,332,000
Total Expenditures of Federal Awards				$ 11,366,398	$ 451,072,824

(a) At December 31, 2014, the outstanding balance of the Federal Housing Administration Section 242 Mortgage Insurance Program Loan was approximately $100,412,000.
(b) At December 31, 2014, the outstanding balance of the Federal Housing Administration Section 241 Mortgage Insurance Program Loans was approximately $296,920,000.
See accompanying notes.

Montefiore Health System, Inc.

Notes to Schedule of Expenditures of Federal Awards

December 31, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the Federal grant activity of Montefiore Health System, Inc. and its controlled organizations (the Health System) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2. Food and Nutrition Awards

During the year ended December 31, 2014, the Health System participated in the New York State Department of Health, Special Supplemental Nutrition Program for Women, Infants and Children (WIC) through the receipt and distribution of food checks. The United States Department of Agriculture has determined that such WIC food instruments are considered "property in lieu of money" and, therefore, should be considered part of the subgrant received by the Health System. The value of WIC food instruments redeemed under the WIC program is as follows:

	Federal CFDA Number	Federal Expenditures for the Year Ended December 31, 2014
United States Department of Agriculture:		
Passed-through New York State Department of Health:		
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	$ 21,536,411

2. Food and Nutrition Awards (continued)

The total amount reported as Federal awards above represents the value of food checks redeemed plus administrative costs ($4,343,000) for the year ended December 31, 2014. As state funds are commingled with the Federal funds received by New York State, percentages (82.74% for administrative costs and 100% for the value of checks redeemed for Federal fiscal year ended 2014) were applied to determine the total amount of Federal funds to be reported above. These percentages were supplied by the New York State Department of Health.

3. U.S. Department of Housing and Urban Development Mortgage Insurance Program

The Health System has five mortgage loans insured under the provisions of the U.S. Department of Housing and Urban Development – Federal Housing Administration Section 241 and 242 mortgage insurance programs. The U.S. Department of Housing and Urban Development (HUD) has determined that the mortgage insurance programs are to be considered a Federal award for purposes of compliance with U.S. Office of Management and Budget Circular A-133.

Pursuant to the agreements related to the mortgages, the Health System is, among other things, required to maintain mortgage reserve funds, required to maintain a specific debt service coverage ratio and other financial ratios, and required to obtain approval from HUD to incur additional debt above specified levels if profitability requirements are not met. The loans are collateralized by substantially all of the property, buildings and equipment, and gross receipts derived from operations.

4. Subrecipients

Of the federal expenditures presented in the Schedule, the Health System provided federal awards to subrecipients as follows:

	Federal CFDA Number	Amount Provided to Subrecipients
Research and Development Cluster:		
Cancer Treatment Research	93.395	$ 54,222
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	989,903
		$ 1,044,125

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Montefiore Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montefiore Health System, Inc. and its controlled organizations (the Health System), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

July 31, 2015

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Trustees
Montefiore Health System, Inc.

Report on Compliance for Each Major Federal Program

We have audited Montefiore Health System, Inc. and its controlled organizations' (the Health System) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Health System's major federal programs for the year ended December 31, 2014. The Health System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on each of the Health System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Health System's compliance.

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Basis for Qualified Opinion on Major Federal Program CFDA# 93.268 Immunization Cooperative Agreements

As described in the accompanying schedule of findings and questioned costs, the Health System did not comply with requirements regarding major federal program CFDA# 93.268 Immunization Cooperative Agreements as described in finding numbers 2014-02 for Special Tests and Provisions and 2014-03 for Program Income. Compliance with such requirements is necessary, in our opinion, for the Health System to comply with requirements applicable to that program.

Qualified Opinion on Major Federal Program CFDA# 93.268 Immunization Cooperative Agreements

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on major program CFDA# 93.268 Immunization Cooperative Agreements for the year ended December 31, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as item 2014-01, related to major program CFDA# 93.268 Immunization Cooperative Agreements, Special Tests and Provisions. Our opinion on the major federal program is not modified with respect to this matter.

The Health System's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Health System's responses were not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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Report on Internal Control Over Compliance

Management of the Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health System's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-02 and 2014-03, related to major program CFDA# 93.268 Immunization Cooperative Agreements, Special Tests and Provisions and Program Income to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Health System's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Health System's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

November 17, 2015

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Montefiore Health System, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2014

Section I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued:	**Unmodified**	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	✓ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Noncompliance material to financial statements noted?	____ Yes	✓ No

Federal Awards Section

Internal control over major federal programs:		
Material weakness(es) identified?	✓ Yes	____ No
Significant deficiency(ies) identified?	____ Yes	✓ None Reported
Type of auditor's report issued on compliance for major Federal programs:	**Unmodified for all major federal programs except for CFDA# 93.268 Immunization Cooperative Agreements, which was qualified**	
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	✓ Yes	____ No

Identification of major programs:

CFDA Numbers	**Name of Federal Program or Cluster**
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
93.268	Immunization Cooperative Agreements
14.128	Mortgage Insurance – Hospitals
14.151	Supplemental Loan Insurance – Multifamily Rental Housing

Section I – Summary of Auditor's Results (continued)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,612,225*
Auditee qualified as low-risk auditee?	✓ Yes ____ No

* Threshold calculation excludes the U.S. Department of Housing and Urban Development, Federal Housing Administration Section 241 and 242 Mortgage Insurance Programs.

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None noted.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Finding Reference Number: 2014-01

Federal Program Information:

U.S. Department of Health and Human Services
Pass-through – New York City Department of Health and Mental Hygiene
CFDA# 93.268 Immunization Cooperative Agreements
Special Tests and Provisions

The Health System should strengthen controls over the safeguarding of the vaccines received from the Vaccines for Children Program (the Program).

Section III – Federal Award Findings and Questioned Costs (continued)

Criteria

In accordance with 42 U.S.C. 1396s, *Program for distribution of pediatric vaccines*, providers are required to maintain proper vaccine storage and handling practices.

Condition

Under CFDA# 93.268, the Health System receives vaccines from the Program. The Program requires that adequate safeguards be established to prevent the risk of loss of vaccines from theft, expiration and improper storage temperature in the refrigerators and freezers. The Health System has implemented policies requiring that the temperature in the refrigerators and freezers be checked and recorded twice daily.

When conducting our 2014 audit, we tested a sample of temperature logs to determine if the Health System was in compliance with their policies to record temperatures for the refrigerators and freezers. We noted that for multiple days in 2014, the Health System did not record the daily temperatures in the temperature logs as required by the Health System's policy. In certain instances, the temperature was recorded only once or not at all in a given day. Based upon our discussions with management, no vaccines were determined to be damaged as a result of inappropriate refrigeration.

Questioned Costs

None

Context

We noted the finding during our tests of internal control and compliance, performed to evaluate the proper storage and maintenance of vaccines. We obtained five months of temperature logs for nine of the Health System's 44 locations where vaccines under the Program are held. We noted multiple days within the months selected where the temperature was recorded only once or not at all in a given day. In instances where the recorded temperature was outside of the recommended temperature range, immediate action was taken and its details documented to comply with remediation guidelines.

Section III – Federal Award Findings and Questioned Costs (continued)

Effect

The Health System was not in compliance with the documentation requirements of the Program over proper vaccine storage and handling practices.

Cause

The Health System personnel did not fully adhere to the policies and practices established in relation to recording of temperatures for refrigerators and freezers.

Recommendation

We recommend that the Health System reinforce its policies and procedures related to the proper recording of temperature logs. Since there was also a finding related to the storage of vaccines in the previous year audit, we recommend that additional training be provided to Health System personnel on the Program safeguards to prevent the risk of loss of vaccines from theft, expiration and improper storage temperature in the refrigerators and freezers.

View of Responsible Officials and Planned Corrective Actions

We have issued an updated policy covering requirements to maintain daily temperature logs. Site directors have been trained and assigned responsibility to make sure logs are updated twice daily. Logs will be scanned and maintained in a network directory. In addition, we have proactively invested over $300,000 in Pharmaceutical-grade refrigeration equipment with continuous temperature monitoring that significantly reduces the need to discard vaccines when the temperature changes are only temporary and when they do not impact the integrity of the vaccine. Finally, a separate oversight group comprised of Directors of Nursing, Operations, Facilities and Finance has been established to regularly review compliance with our policies.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Reference Number: 2014-02

Federal Program Information:

U.S. Department of Health and Human Services
Pass-through – New York City Department of Health and Mental Hygiene
CFDA# 93.268 Immunization Cooperative Agreements
Special Tests and Provisions

The Health System should strengthen procedures to ensure Program vaccines are administered only to eligible children of the Program.

Criteria

In accordance with 42 U.S.C. 1396s, *Program for distribution of pediatric vaccines,* vaccines must be used solely for authorized purposes and administered only to those children eligible for the Program.

Condition

Under CFDA# 93.268, the Health System receives vaccines from the Program. The Health System is responsible for administering free vaccines to children meeting certain eligibility criteria dictated by the Program.

When conducting our 2014 audit, we tested a sample of individuals to whom free vaccines were administered during the year. We noted multiple instances where vaccines were administered to patients who did not meet the eligibility criteria.

Questioned Costs

None

.

Section III – Federal Award Findings and Questioned Costs (continued)

Context

In performing tests of internal controls over compliance and tests of compliance, we noted 3 instances out of 40 vaccines tested (approximately 7.5% of the sample tested), where vaccines were administered to patients who did not meet the eligibility requirements of the Program. The Health System administered approximately 239,000 vaccines in 2014.

Effect

The Health System was not in compliance with the eligibility requirements of the Program.

Cause

For the 3 exceptions, the Health System did not properly verify eligibility at the time of the patient visit as set forth by the requirements of the Program.

Recommendation

We recommend that the Health System implement additional procedures to ensure it is distributing the vaccines in accordance with the eligibility requirements of the Program.

View of Responsible Officials and Planned Corrective Actions

The Health System administered approximately 239,000 vaccines in 2014 to patients who were indicated as being eligible for the Program. Upon further testing of the population, it was determined that less than 3% of those indicated as eligible were deemed to be ineligible. Furthermore, it was determined that approximately 67% of those who were ineligible received a vaccine from the Program. When taking these additional tests into account, the adjusted rate of non-compliance is less than 2% of the population.

We have reeducated our staff on identifying eligible patients for the Program based on insurance plan. In addition, we intend to put an automated process in place through our electronic medical record that will indicate a patient's eligibility based on their insurance plan. The current process involves a nurse making an eligibility determination based on the patient's insurance plan at the time of service. By changing this to an automated process that will prompt the nurses on patient eligibility, we can effectively eliminate the potential errors. Finally, as an added control, we have initiated a monthly audit to ensure that vaccines received from the Program are only given to patients who are eligible.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Reference Number: 2014-03

Federal Program Information:

U.S. Department of Health and Human Services
Pass-through – New York City Department of Health and Mental Hygiene
CFDA# 93.268 Immunization Cooperative Agreements
Program Income

The Health System should strengthen procedures to ensure fees charged for the Program vaccines are in line with Program policy.

Criteria

In accordance with 42 U.S.C. 1396s, *Program for distribution of pediatric vaccines*, "in administering a qualified pediatric vaccine to a vaccine-eligible child, the provider will not impose a charge for the cost of the vaccine." In addition, "the provider may impose a fee for the administration of a qualified pediatric vaccine so long as the fee in the case of a federally vaccine-eligible child does not exceed the costs of such administration (as determined by the Secretary based on actual regional costs for such administration)."

Condition

Under CFDA# 93.268, the Health System receives vaccines from the Program. The Health System is responsible for administering free vaccines to children meeting certain eligibility criteria dictated by the Program. While the vaccines are to be distributed to the patients free of charge, the distributing entity may, at its discretion, charge an administration fee, which is not to exceed the maximum reimbursement schedule established by the Centers for Medicare and Medicaid Services (CMS).

When conducting our 2014 audit, we tested a sample of 40 individuals to whom vaccines were administered during the year. We noted 8 instances where individuals were charged inappropriately for the vaccines administered relating to the cost of the vaccine and/or administrative fee. Of these 8 instances, there were 4 where payment was received, resulting in non-allowable program income.

Section III – Federal Award Findings and Questioned Costs (continued)

Questioned Costs

None

Context

In performing tests of internal controls over compliance and test of compliance with the program income compliance requirement, we noted 8 exceptions out of our 40 selections as described in the 'Condition' section above. Of the 8 exceptions, 3 were the result of improper eligibility verification identified in finding 2014-02. As was noted in finding 2014-02, the Health System administered approximately 239,000 vaccines in 2014.

Effect

The Health System was not in compliance with the program income requirements of the Program.

Cause

For all exceptions, the Health System did not bill appropriately in consideration of the program income requirements.

Recommendation

We recommend that the Health System implement restrictions in the billing system whereby individuals who receive vaccines under the Program would not be charged for the vaccines or for administrative fees in excess of allowable amounts. Additionally, we recommend the Health System implement periodic reviews to determine if they have been paid in excess of allowable amounts under the Program.

Section III – Federal Award Findings and Questioned Costs (continued)

View of Responsible Officials and Planned Corrective Actions

Management performed further tests of the population and determined that payments were received from less than 3% of those indicated as eligible who were deemed to be ineligible. Furthermore, it was determined that approximately 67% of those who were ineligible received a vaccine from the Program. When taking these additional tests into account, the adjusted rate of non-compliance was less than 2% of the population.

We have revised our processes and will run a monthly report covering charges for the Program. The report will be reviewed by authorized personnel to ensure that fees charged for Program vaccines are appropriate. In addition, we intend to put an automated process in place through our electronic medical record that will indicate a patient's eligibility based on their insurance plan. The current process involves a nurse making an eligibility determination based on the patient's insurance plan at the time of service. By changing this to an automated process that will prompt the nurses on patient eligibility, we can effectively eliminate the potential errors.

Montefiore Health System, Inc.

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2014

Finding Reference Number: 2013-01

Federal Program Information

U.S. Department of Health and Human Services
Pass-through – New York City Department of Health and Mental Hygiene
93.268 Immunization Cooperative Agreements
Special Tests and Provisions

Condition

Under CFDA# 93.268, the Health System receives vaccines from the Vaccines for Children Program (the Program). The Program requires that adequate safeguards be established to prevent the risk of loss of vaccines from theft, expiration and improper storage temperature in the refrigerators and freezers. The Health System has implemented a Vaccine Storage and Handling Plan that details directions for appropriate storage and handling of the vaccines. The Vaccine Storage and Handling Plan is required to be reviewed and signed annually by the person in charge of the vaccines at each site or clinic where vaccines are held.

When conducting our 2013 audit, we performed a sample of site visits and noted one instance in which the vaccine storage and handling plan was not being followed in its entirety as vaccines were stored against the walls of the refrigerator.

We noted the finding during our tests performed to evaluate the proper storage of vaccines. We visited four of the Health System's 40 total locations where vaccines under the Program were held. We noted the vaccines were touching the walls of the refrigerator at one location.

Status

This audit finding was corrected. We did not note any instances of noncompliance related to this issue when performing our site visits related to the 2014 audit.

Schedules Related to the New York City Administration for Children's Services Contract # 20120000464

Montefiore Health System, Inc.

New York City Administration for Children's Services
Family Treatment/Rehabilitation

Contract # 20120000464
Grant Period July 1, 2013 to June 30, 2014

Statement of Revenues and Expenditures

Year Ended December 31, 2014

	Approved Budget	2014 Amounts	Cumulative Amounts	Variance to Cumulative Budget
	(Unaudited)			
Revenues:				
Administration for Children's Services	$ 516,060	$ 227,408	$ 513,708	$ (2,352)
Total revenue	516,060	227,408	513,708	(2,352)
Expenditures:				
Personnel Expenditures:				
Salaries	303,750	126,617	303,750	–
Fringe benefits	78,975	32,802	78,975	–
Total personnel expenditures	382,725	159,419	382,725	–
OTPS Expenditures:				
Rent and utilities	35,360	17,294	35,133	(227)
Other	51,060	30,390	49,171	(1,889)
Total OTPS expenditures	86,420	47,684	84,304	(2,116)
Administrative overhead	46,915	20,305	46,679	(236)
Total expenditures	516,060	227,408	513,708	(2,352)
Excess of revenue over expense	$ –	$ –	$ –	$ –
		(Unaudited)		
Private share	$ 25,803	$ –	$ 25,803	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
Family Treatment/Rehabilitation

Contract # 20120000464
Grant Period July 1, 2012 to June 30, 2014

Schedule of Salaries

Year Ended December 31, 2014

Employee Identification Code	Title	Budgeted Salary	2014 Salary	Cumulative Salary	Variance Cumulative to Budget
		(Unaudited)			
75006739032A	Program Director, PhD	$ 85,000	$ 33,050	$ 81,139	$ 3,861
75005J21009A/ 75005251002A	Supervisors	63,000	37,538	75,137	(12,137)
75008241033A	Supervisor	15,750	3,931	27,014	(11,264)
75009658004A/ 75009392004A	MA-Level Case Planners	55,000	24,739	47,401	7,599
75009372001A	BA-Level Case Planner	42,500	6,451	30,311	12,189
75009391034A	BA-Level Case Planner	42,500	20,908	42,748	(248)
Total		$ 303,750	$ 126,617	$ 303,750	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
Family Treatment/Rehabilitation

Contract # 20120000464
Grant Period July 1, 2013 to June 30, 2014

Schedule of Fringe Benefits

Year Ended December 31, 2014

Description	Budgeted Amount	2014 Amounts	Cumulative Amounts	Cumulative Fringe % to Cumulative Salary	Variance Cumulative to Budget
	(Unaudited)				
FICA	$ 23,237	$ 11,265	$ 23,237	7.65%	$ –
Health	45,563	18,925	45,563	15.00	–
Worker's Compensation	3,038	1,262	3,038	1.00	–
Unemployment	1,519	631	1,519	0.50	–
Disability	1,519	719	1,519	0.50	–
Other	4,099	–	4,099	1.35	–
Total	$ 78,975	$ 32,802	$ 78,975	26.00%	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
Family Treatment/Rehabilitation

Contract # 20120000464
Grant Period July 1, 2013 to June 30, 2014

Schedule of Fixed Assets Inventory

Year Ended December 31, 2014

Description	Serial Number	Date Purchased	Cost
N/A	N/A	N/A	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
Family Treatment/Rehabilitation

Contract # 20120000464
Grant Period July 1, 2013 to June 30, 2014

Schedule of Questioned Costs

Year Ended December 31, 2014

Detailed Explanation of Questioned Costs	Questioned Costs
Budget line category	
Please provide a detailed explanation of the questioned costs. Include such items as vendor name, why costs are being questioned and how the questioned costs were determined.	N/A
Budget line category	
Total questioned costs	N/A

Montefiore Health System, Inc.

New York City Administration for Children's Services
Family Treatment/Rehabilitation

Contract # 20120000464
Grant Period July 1, 2013 to June 30, 2014

Schedule of Quantitative Program Results

Year Ended December 31, 2014

Quantifiable Indicators *(Unaudited)*		
Number of open cases at beginning of period		27
Number of new cases during audit period		26
Number of cases serviced during audit period		53
Cases terminated		24
Cases open as of current year		29
Cost per family	$	9,737

Schedules Related to the New York City Administration for Children's Services Contract # 20141409778

Montefiore Health System, Inc.

New York City Administration for Children's Services
Specialized Teen Preventive Services

Contract # 20141409778
Grant Period July 1, 2013 to June 30, 2014

Statement of Revenues and Expenditures

Year Ended December 31, 2014

	Approved Budget	2014 Amounts	Cumulative Amounts	Variance Cumulative to Budget
	(Unaudited)			
Revenues:				
Administration for Children's Services	$ 1,026,667	$ 849,124	$ 1,026,667	$ –
Total revenue	1,026,667	849,124	1,026,667	–
Expenditures:				
Personnel expenditures:				
Salaries	623,333	508,185	623,333	–
Fringe benefits	162,067	132,128	162,067	–
Total personnel expenditures	785,400	640,313	785,400	–
OTPS expenditures:				
Rent and utilities	46,008	46,008	46,008	–
Other	101,926	87,174	101,926	–
Total OTPS expenditures	147,934	133,182	147,934	–
Administrative overhead	93,333	75,629	93,333	–
Total expenditures	1,026,667	849,124	1,026,667	–
Excess of revenue over expense	$ –	$ –	$ –	$ –
		(Unaudited)		
Private share	$ 24,933	$ –	$ 24,933	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
Specialized Teen Preventive Services

Contract # 20141409778
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Schedule of Salaries

Year Ended December 31, 2014

Employee Identification Code	Title	Budgeted Salary	2014 Salary	Cumulative Salary	Variance Cumulative to Budget
		(Unaudited)			
75006739032A	Program Director, PhD	$ 50,232	$ 16,619	$ 16,619	$ (33,613)
75005H34003A	Program Director, PhD	82,651	76,821	76,821	(5,830)
7500521005A	Supervisor	50,250	21,991	39,454	(10,796)
75005J21012A	Supervisor	75,000	36,258	56,493	(18,507)
75005H35026A	MA-Level Case Planner	55,000	27,319	45,737	(9,263)
75009392043A	MA-Level Case Planner	55,000	25,222	29,642	(25,358)
75009392057A	MA-Level Case Planner	55,000	25,621	39,890	(15,110)
75009658001A	MA-Level Case Planner	55,000	26,100	38,440	(16,560)
75009658004A	MA-Level Case Planner	55,000	29,215	45,489	(9,511)
75005H35031A	MA-Level Case Planner	55,000	17,114	17,114	(37,886)
75009658007A	MA-Level Case Planner	35,200	(1,361)	10,368	(24,832)
75005H35032A	MA-Level Case Planner	–	6,247	6,247	6,247
7550034286	MA-Level Case Planner	–	1,261	1,261	1,261
75009392001A	MA-Level Case Planner	–	23,750	23,750	23,750
75009392031A	MA-Level Case Planner	–	16,250	16,250	16,250
7500939053A	MA-Level Case Planner	–	23,550	23,550	23,550
75009392023A	MA-Level Case Planner	–	25,658	25,658	25,658
75005M52003A	MA-Level Case Planner	–	10,500	10,500	10,500
75005H35010A	MA-Level Case Planner	–	22,575	22,575	22,575
75005H021A	MA-Level Case Planner	–	12,000	12,000	12,000
75005H74021A	MA-Level Case Planner	–	37,500	37,500	37,500
75005H35013A	MA-Level Case Planner	–	10,000	10,000	10,000
75005H35008A	MA-Level Case Planner	–	17,975	17,975	17,975
Total		$ 623,333	$ 508,185	$ 623,333	$ –

Montefiore Health System, Inc.

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Schedule of Fringe Benefits

Year Ended December 31, 2014

Description	Budgeted Amount	2014 Amounts	Cumulative Amounts	Cumulative Fringe % to Cumulative Salary	Variance Cumulative to Budget
	(Unaudited)				
FICA	$ 47,685	$ 38,876	$ 47,685	7.65%	$ –
Health	93,500	76,228	93,500	15.00	–
Worker's Compensation	6,233	5,082	6,233	1.00	–
Unemployment	3,117	2,541	3,117	0.50	–
Disability	3,117	2,541	3,117	0.50	–
Other	8,415	6,860	8,415	1.35	–
Total	$ 162,067	$ 132,128	$ 162,067	26.00%	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
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Schedule of Fixed Assets Inventory

Year Ended December 31, 2014

Description	Serial Number	Date Purchased	Cost
N/A	N/A	N/A	$ –

Montefiore Health System, Inc.

New York City Administration for Children's Services
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Schedule of Questioned Costs

Year Ended December 31, 2014

Detailed Explanation of Questioned Costs	Questioned Costs
Budget line category	
Please provide a detailed explanation of the questioned costs. Include such items as vendor name, why costs are being questioned and how the questioned costs were determined	N/A
Budget line category	
Total questioned costs	N/A

Montefiore Health System, Inc.

New York City Administration for Children's Services
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Schedule of Quantitative Program Results

Year Ended December 31, 2014

Quantifiable Indicators

(Unaudited)

Number of open cases at beginning of period		–
Number of new cases during audit period		36
Number of cases serviced during audit period		36
Cases terminated		13
Cases open as of current year		23
Cost per family	$	28,519

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